

# FINANCIAL REVIEW

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HD **RBA warns on commercial real estate**  
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The Reserve Bank of Australia has warned the valuations of **commercial** real **estate** could become more "sensitive" due to foreign ownership.

"The greater foreign presence potentially adds to the sensitivity of capital values," its economic analysis department said in a paper on foreign investment in **commercial property**.

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It said the additional sensitivity to values from foreign ownership depended on variations in conditions in the economies of those foreign buyers.

"For example, an adverse shock overseas could cause foreigners to try to divest Australian assets to cover liabilities offshore," the bank said.

The RBA's analysis comes as foreign ownership across both **commercial** and **residential** real **estate** comes under greater scrutiny.

Coalition MP Kelly O'Dwyer said evidence at a **residential** real **estate** inquiry suggests foreign buyer restrictions were not adequately enforced by the Foreign Investment Review **Board**.

Investors from the world's second-largest economy, **China**, have rapidly lifted their **residential** and **commercial** real **estate** investment in Australia.

**Chinese** investors have been on a buying spree, purchasing everything from existing office towers for passive investments to **residential** redevelopment plays.

Several high-profile real **estate** industry figures have questioned the prices being paid, including ANZ's head of **commercial property**, Eddie Law, who said banks must carefully monitor the "logic" of new **Chinese**-backed **site purchases** and developments.

"**Chinese** equity competes in its own framework against local equity. It has a propensity to pay a higher price, particularly for development sites, and the jury is out as to the logic attached to that at the moment," Mr Law said this week.

However, the RBA hedged its bets on the effect of foreign capital on our real **estate** values by noting that a large amount of investment had come from patient capital.

"The effect of deteriorating international conditions could also be lessened to the extent that pension funds and sovereign wealth funds continue to account for a greater share of foreign **purchase**, since these institutions are less likely to be influenced by temporary changes in their own country's economic conditions."

The bank said that more foreign ownership of **commercial** buildings may also reduce the volatility of Australian **property** values to the extent that domestic business cycles are not perfectly correlated with those in other economies.

Foreign investment in **commercial property** has increased in recent years, with foreigners having accounted for about one-quarter of the value of **commercial property purchases** in Australia since 2008.

Nearly 90 per cent of all major **hotel** sales in Australia were by foreign investors in 2013.

The RBA also said the amount of foreign **purchases** had also enabled domestic firms to diversify their portfolios by purchasing or developing buildings in other regions or sectors.

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