



**HD** As **China's** real estate market cools, the nation's new property moguls look to Australia

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To set foot in a real estate expo in **China** is to run a frantic gauntlet of sales staff thrusting glossy pamphlets into every open hand they can find.

Vying for the attention of cashed-up investors is always competitive at major property events; with hundreds of property developers spruiking dreams of home ownership - and not just in **China**.

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In exhibition halls in **China's** major capital cities, prospective buyers are just as likely to come across promoters for house and land packages in suburban Melbourne, or off-the-plan inner-city apartments in central Sydney, as they are for a luxury development in **China's** southern beachside resort of Sanya.

But after years of heady growth spurred building - and buying - of high-rise apartments on a mind-bending scale, property prices in **China** have slid backwards for five straight months, prompting fears of a deeper price correction.

Although many property analysts remain confident the government is able to intervene if needed to prevent a full-blown property crisis, the sector is routinely fingered as a major risk factor amid the slowing trajectory of **China's** seemingly inexorable economic rise.

**Chinese** property prices are at this critical juncture, Wang Peng, the managing director of property developer Hanya Federal, told Fairfax Media. He says prices in second- and third-tier cities - essentially those outside Beijing, Shanghai and Guangzhou - are especially fragile given local developers continue to build.

If you're a rational investor, you'll be selling all the houses you don't need. If you don't, in a few years you won't be able to, he says. Many, many people are selling their house in **China** and buying elsewhere, maybe in Australia, maybe in the United States.

The evaporation of easy returns has seen top-end property developers earnestly branching out away from **Chinese** real estate, and seen some of the country's most prolific businessmen invest in Australia.

Property mogul Wang Jianlin, a former military officer, who owns the most movie screens across the world thanks to the **acquisition** of the US-headquartered AMC Entertainment, last year flew in the likes of Nicole Kidman, John Travolta and Leonardo DiCaprio to celebrate the ground-breaking ceremony of his Qingdao Oriental Movie Metropolis - a movie studio he hopes will help **China** surpass Hollywood as the centre of the film universe.

Recently bumped from top spot of **China's** rich list by tech giant Alibaba founder Jack Ma, Wang established an Australian arm of his sprawling Wanda **Group** empire in August. Funded with an initial cash chest of \$1.7 **billion**, Wanda Australia's first foray will be a joint venture with fellow **Chinese group** Ridong to develop the \$1 **billion** Jewel hotel and apartment resort complex on the **Gold** Coast, amid a string of acquisitions in London, Madrid and other parts of Europe. Wanda has the stated ambition of becoming the largest owner of five-star hotels across the world.

In the past five years, Wanda's income has grown at [an average of] 35 per cent a year, Wang said last year. I think this is a normal speed, but some feel it's too fast. But if we took regular steps to grow, we wouldn't be able to become No.1 in the world.

Even more diverse is the extraordinary spending spree of Xu Jiayin, chairman of conglomerate Evergrande and co-owner (with Jack Ma) of arguably the richest football club in Asia, Guangzhou Evergrande Taobao.

Just last month, Xu, also known as Hui Ka Yan, caused a stir when he jetted into Australia with his entourage in a private Airbus A319, scouting for deals on the **Gold** Coast, and in Brisbane and Sydney, according to sources.

Evergrande this week launched its own infant formula after acquiring New Zealand **dairy** producer Cowala **Dairy**. It is spending 10 **billion** yuan (\$1.86 **billion**) to take on **China's** cooking **oil** and grain markets - ventures which have already been prominently advertised on Xu's Guangzhou football club jerseys.

Evergrande has also launched its own **brand** of bottled water and an expansion into **solar energy** and **wine**-making, all in the space of a few months.

They're taking the spray-and-pray approach, says Michael Cole, a Shanghai-based real estate analyst. They're trying out a bit of everything to see what they can do with their cash, now that they no longer get the returns they used to on real estate development.

Financial analysts have cautioned investors against Evergrande's aggressive diversification strategy, concerned with its cash-flow and rising debt.

Credit ratings agency Fitch downgrading the **company's** credit rating to BB- after noting a large increase in its net debts, following record land acquisitions last year and this year's investments in an array of businesses.

Goldman Sachs said this week that investors should avoid **Chinese** developer **bonds** altogether, as builders in the world's second-largest economy increase note offerings to help refinance some \$US13.4 **billion** worth of debt due next year.

Not helping sentiment was the shock arrest last month of Agile Property's Chen Zhuolin on corruption charges, causing shares in the **Chinese** real estate developer to plummet.

Foreign lenders in **China** have already been stung by a string of suspected fraud cases and problem loans in the country as Beijing investigates **company** executives and seizes assets in a crackdown on corruption.

Fairfax Media has learnt that Xu himself has been interviewed by **China's** Central Commission for Discipline Inspection, according to three sources: a senior property executive, a person with knowledge of corruption investigations in Guangdong, and a businessman with ties to **China's** elite.

Xu was questioned in relation to his close ties with Wan Qingliang, the party boss of Guangzhou who was arrested on corruption charges in June and expelled from the Communist Party after a party conference last week.

There is no suggestion that Xu has acted improperly or that he faces corruption charges himself. Evergrande declined to comment.

But as word spreads within the tight-knit **business** community in southern **China**, it appears Xu's seemingly high-risk expansion strategies can in fact act as insurance. By gaining an international profile, and by virtue of his large debts owed to state-owned banks, observer believe he can become too big to fail.

What is the return of the deal in terms of the investment return, and what is the return in terms of the PR value of the **company**? Cole says. The international deals do help quite a bit.

Back at the property expo in Beijing, Wang Peng, remains busy convincing interested investors to sell in **China** and **buy** in Australia.

Wang himself, who amassed a modest fortune by riding **China's** property boom, has traded in his Beijing apartments for an apartment in Sydney's Ryde, and a house and land package in Point Cook, on the western fringes of Melbourne.

Backed by a multibillion-dollar head **company**, Hanya has launched a 110-apartment development in Melbourne's Box Hill aimed at convincing other **Chinese** investors to make the same switch.

Demonstrating the buying power of cashed-up **Chinese** investors, Wang says Australia is popular because property prices are perceived as cheap compared to what is available in the big cities in **China**.

Australia also has lower home loan deposit requirements compared to **China**, where banks often require around one-quarter of the property's value upfront, amid tightening lending conditions.

The amount of **Chinese** developers entering the Australian market is increasing exponentially, Wang says, and the only reason these businesses dare to venture into this market is because there is the scale and the demand.

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