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HD **Foreign investors target offices**

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AUSTRALIAN **commercial** properties have become increasingly attractive to foreign investors, who make up a significantly larger proportion of **purchases** than seen in the last decade.

A Reserve Bank paper released yesterday has found overseas buyers were especially active in the first half of the year, purchasing nearly $5 billion worth of **commercial** properties or about 40 per cent of the value of all sales.

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Previously, foreign capital accounted, on average, for about one-quarter of **commercial property purchases**.

Net sales, taking into account asset sales by overseas investors, amounted to $4bn for the first six months of the year, "close to its level for all of 2013".

Data published by the Foreign Investment Review **Board** showed approvals for investments in **commercial property** increased from $11bn in 2010 to nearly $35bn in 2013, but the RBA paper dismisses that figure as an inaccurate estimate.

The recent increase has been "most pronounced in the market for office **property**" and most active in Sydney, according to the RBA researchers, with foreign **purchase** of retail and industrial assets accounting for only about 15 per cent of sales, although these were more evenly distributed across Australia.

About one-third of foreign **purchases** since 2008 have been made by pension funds and sovereign wealth funds after two decades of little activity.

Separate statistics compiled by real **estate** agency CBRE show Singapore has been the single biggest net investor in Australian **commercial property** since 2005, at just over $5bn, followed by Germany, the US and **China**. Malaysia, Canada, South Korea and Britain are also significant investors, Most of the **purchases** were for existing buildings, a preference "reflecting foreigners' desire for **commercial** buildings as passive investments" because of a predictable income stream. While some local builders have raised concerns about an influx of capital pushing up prices considerably, the RBA researchers suggest most foreign firms are partnering with local companies, "effectively supporting the financial position of domestic developers and enabling them to undertake additional construction activity".

Campbell Hanan, chief executive of Investa Office, said it was inevitable foreign capital would come to Australia chasing attractive yields.

"The great thing about globalisation is that people take their own return expectations elsewhere and apply it to your own market and if that means that a market like Australia looks cheap on a relative basis then you'll see an inflow of foreign capital," he said. The CBRE research noted up to $US75bn in funds controlled by Asian life insurers could be invested in global **commercial property** as deregulation of the sector continues in **China** and Taiwan.

But Stephen McNabb, CBRE's head of research, said while the trend would continue over the next 18 months, Australia's relative attractiveness would fade."An improvement in global economic growth and a return towards 'normal' interest rate settings, while appearing some way into the future, will be the likely catalyst," he said.

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