ABC

HD **Chinese buyers to invest $44b in Australian real estate: analysts**

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Global investment bank Credit Suisse expects Chinese nationals to sink around $44 billion into Australian residential real estate over the next seven years.

Combining what information is available from the Foreign Investment Review Board, Department of Immigration and Bureau of Statistics to estimate Chinese residential property investment, the bank puts it conservatively at more than $5 billion per annum.

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The Credit Suisse report estimates that Chinese investors and newly arrived immigrants have spent about $24 billion on Australian property over the past seven years.

Given the restriction on non-permanent residents forcing them to buy newly built properties, Credit Suisse estimates that Chinese buyers are currently purchasing around 12 per cent of new homes in Australia.

However, the report's authors say that buying is concentrated in Australia's two largest cities, meaning that an estimated 18 per cent of new dwellings in Sydney and 14 per cent in Melbourne are being purchased by Chinese nationals.

The level of Chinese buyers in other markets is estimated to be 7 per cent or lower.

While Chinese buyers are still a relatively small proportion of the overall property market - especially since non-permanent residents cannot buy established homes - the report's authors say they have a large influence on prices.

"The marginal buyer of Sydney and Melbourne real estate has changed, as have the drivers of property prices," the report observed.

Translated from economic jargon, a "marginal buyer" is the bidder that trumps everyone at an auction, when most think the price has gone too high.

Such buyers, even if a minority, often set a benchmark for expectations in the market - 'my neighbour got X, Y, Z, so I want X, Y, Z plus one', being a mentality in rising property markets that real estate agents are only too familiar with.

The analysts point out that Sydney is fourth and Melbourne fifth in Demographia's list of the least affordable cities for home prices relative to incomes - only Hong Kong, Vancouver and San Francisco rank higher.

However, they warn the increase in Chinese property investment could worsen this situation.

"While Australia has some of the most unaffordable housing in the world, further strong Chinese demand can push prices even higher," they forecast.

"A generation of Australians are being priced out of the property market. Many face a lifetime of renting."

Home prices decoupled from incomes

Credit Suisse says the existence of a significant number of cashed-up foreign investors has the potential to decouple home prices from the normal factors that restrict them, such as local income levels.

"The emergence of the global **property** investor means that valuation methods like house price to local income ratios are becoming obsolete," the report states.

"Residents of central London have known this for some time. Many of which are well paid investment bankers but are still struggling to **buy** in the capital where many of the owners are wealthy individuals from the Middle East, North Africa and other parts of Europe."

The Credit Suisse analysts warn Sydney residents, in particular, that they may be headed for the same fate.

"While the differences in recent house price and wage inflation in Sydney has not been as extreme as London just yet, we think the two cities have plenty in common," they observed.

"In both cities **property** rights are protected. Both cities are in transparent democracies and within an overnight flight away from less democratic countries with less transparent governments. And both the UK and Australia have their borders open to new immigrants, especially if they are rich."

However, the point of the Credit Suisse report is not to warn of the danger of local residents being priced out of their home cities, but rather to highlight investment opportunities.

The obvious one being **property** developers, which the investment bank says are already increasingly reliant on **Chinese** buyers.

"Australand and Mirvac have noted that foreigners (primarily **Chinese**) are buying 10 to 20 per cent of new supply. Meriton (unlisted) has stated foreigners (mostly **Chinese**) are buying 12 to 15 per cent of its apartments," the report noted.

"We don't discount the possibility of a **Chinese** entity taking over an Australian developer."

The Credit Suisse analysts say that building materials makers, banks and real **estate** advertisers are also good bets while the inflow of **Chinese property** investment continues growing.

They say the bank already holds Mirvac, CSR, National Australia Bank and Fairfax (owner of the Domain real **estate** website) in its long-term portfolio.

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