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HD **The China syndrome: local buyers priced out**

BY Max Mason

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Property - One-fifth of new homes bought by foreign investors

Close to one-fifth of new properties in Sydney are being bought by wealthy Chinese investors and the flood of money is set to continue.

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Using data from the Australian Bureau of Statistics and the Foreign Investment Review Board, Credit Suisse estimates that Chinese buyers account for 18 per cent of new property purchases in Sydney, and 14 per cent of the supply in Melbourne. This does not include second-hand homes.

"A generation of Australians are being priced out of the property market. Many face a lifetime of renting," analysts Hasan Tevfik and Damien Boey said.

There are currently 1.1 million millionaires in China who could easily afford properties in Australia's two most expensive markets, Credit Suisse said.

Wealthy Chinese buyers have purchased $24 billion of Australian housing in the past seven years, and over the next seven years an additional $44 billion will be spent on residential property, Credit Suisse estimates.

There was $17.2 billion worth of approved residential property investment coming in from overseas in the year June 30 2013, down from $19.7 billion in the previous period, according to the FIRB. Foreigners must seek approval to buy established real estate and rural land, but can buy up to 50 per cent of a new building "off the plan".

Of the 2013 total, $5.6 billion was approved for residential properties in New South Wales.

That number may seem large, but across the whole property market the effect dissipates.

There is, on average, a 6 per cent turnover annually in Australia's property, according to the Reserve Bank of Australia.

The total value of Australia's property market is $5.02 trillion, according to the ABS, so yearly turnover in the housing sector is roughly $360 billion.

Chinese buyers are spending $5.4 billion a year on Australian properties, Credit Suisse said, with the split relatively even between new settlers and others, which include investors, developers and temporary residents.

The rise in domestic house prices, while marginally impacted by Chinese investors, is a result of low interest rates, increased affordability and domestic investors, not foreigners, said Deutsche Bank economist Phil Odonaghoe.

"The point that gets lost in this debate very often is that nobody focuses on the rules, which are pretty clear for a foreign investor. The principle that guides the FIRB policy is that foreign investment should increase the housing stock," Mr Odonaghoe said.

Chinese investors may be pushing new house prices higher, which is locking out local first-home buyers, but they are not the reason for rises in second-hand home prices, he said.

That doesn't bode well for first-home buyers who struggle to break into the market. First-home buyer activity, as a proportion of total borrowers, is near record lows at 12.7 per cent of total loan approvals, states the ABS.

First-time buyers in February comprised less than 10 per cent of all mortgages processed by broker AFG for the first time since June 2010.

The numbers are most dramatic in NSW where first-home buyers were responsible for just 3.4 per cent of AFG mortgages, down from an already very low 4.5 per cent in February last year. Victoria's first-home buyers took out 10.3 per cent of mortgages, down from 17.1 per cent last February.

Over the past 12 months, **property** prices in capital cities have jumped 10 per cent, according to the RPData-Rismark home index.

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