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HD **CHINESE LEAD INVESTMENT**

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CHINESE INVESTORS are likely to play an increasingly prominent role in the commercial property market this year, with one commercial real estate agency reporting they accounted for a third of the firm's sales last year.

Bruce Whillans, the executive director of Ray White Commercial Auckland, said his company sold $450 million worth of commercial property last year, of which almost $150m went to Chinese buyers.

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That part of the business has grown from almost nothing because Whillans only started fielding a serious level of enquiries from Chinese investors at the beginning of last year.

"It has grown exponentially," he said, and as a result he was in the process of hiring Chinese- speaking staff to man a dedicated Asian Business Desk within the agency.

He was finding there were three main types of Chinese buyers.

Those who had moved permanently to New Zealand and were already well-established, with a house and other investments here.

Those who had sent their children to study here but were hoping to relocate the whole family to this country at a later date and were buying assets in anticipation of the move.

Ultra wealthy individuals and large China-based corporate investors.

A common refrain from many of his clients was that although there were still difficulties moving large amounts of money out of China, shifting up to about US$10m a year overseas was "do-able."

"So they tend to buy a nice family home for say $2m to $2.5m and a car and invest the rest.

Consequently Whillans gets many of his investor referrals from residential property agents within the wider Ray White branch network.

"I'll get an agent from say Mairangi Bay ring me up and say he's just sold a house to a Chinese client who now wants to invest $20m in commercial property," he said.

Many were keen on buying vacant residential land earmarked for future development.

Last year Whillans sold down many of the development sites at the Albany City project on Auckland's North Shore and the majority were sold to Chinese buyers, he said.

"I think they are comfortable with landbanking because they understand residential land. There are some who just want to buy it and park it. And others who are well-advanced with their development planning, and they are using local consultants and architects and seem to be going about it in a prudent manner."

Some were also buying for a relatively quick flick. "Some have bought $20m blocks and subdivided them into $5m blocks and resold them," he said.

In some cases, family money from China would be channelled through a son or daughter studying here.

Whillans said he sold a block of land for $25m to a Chinese student studying at Auckland university whose family hoped to move here.

"They are killing two birds with one stone because the kids are getting a good education and they are establishing a financial beachhead here." he said.

There was also good interest from Chinese corporations and ultra wealthy individual investors keen on buying major commercial property assets such as large office buildings worth $50m or more.

"The trouble is, those types of properties tend to be tightly held by local institutional investors such as listed property trusts, so there is not a lot of stock available."

But if something did come on to their market, Whillans would expect some serious Chinese interest.

"It's creating some good liquidity in the local property market," he said.

The flow of funds from China seems to be part of a wider regional trend, with Australia also receiving an influx of Chinese cash.

The most recent figures available from Australia's Foreign Investment Review Board showed Chinese property investment during the 2011-2012 financial year was worth A$4.2 billion, with China the third-biggest foreign investor in the domestic property market, behind the US (A$8.16b) and Singapore (A$5.7b).

Sydney trophy home Altona at Point Piper sold in May 2012 for A$53 million to Chinese businessman Xiuzhen Ding. another point Piper waterfront home owned by Seven executive Bruce McWilliam sold in April for A$33m to Forbes Rich Lister and Cubbie Station buyer Qiu Yafu.

In Melbourne this week, private Chinese investor Fu Wah International Group snared one of the country's prime hotel sites, the Park Hyatt Melbourne for A$135m, continuing a wave of Asian-lead investment.

The sale comes in the wake of a string of deals to offshore investors at blisteringly high prices, including Chinese developer Greenland's A$45m purchase in October of a four-hectare parcel at Flemington Racecourse for a future high-rise development which could have an end value in excess of A$500m.

The opportunity to own land outright on a freehold title, rather than the standard 70-year leases granted in China, is one reason developers choose to buy land in Australia. "Its simple, you buy the site and don't lose the title - ever," managing director of developer Antaeus, Stanley Lei said.

Having no caps on the number of properties an individual could buy in Australia was another incentive.

Families living in Beijing are restricted to owning just two apartments.

"Policies like this have driven Chinese locals to outside China to invest," Lei said.

Clean air and a relatively pristine natural environment was another drawcard, as was Australia's range of universities - well-respected in global standings, according to CBRE (Australia) residential head David Milton.

"The investors I see are typically following their children who went to uni here, but once they get here they see it as a great place to live and a safe place to invest," he said, adding: "this wave of investment is hardly a new thing.

"The Chinese have always invested in Australian property, but the biggest change is what used to be quite a small investment is now turning into something big."

Chinese-born Australian resident Matthew Xu was one of the hoards who snapped up apartments in Chinese developer Greenland's residential tower midway through construction on the site of the former NSW Water Board headquarters in Sydney's CBD.

An accounting graduate from Xi'an in China's north-east and now studying towards his CFA (Charter Financial Analyst) exams, Xu paid around A$1.05m for a two- bedroom apartment in what is slated to become Sydney's tallest residential tower.

It is his fifth investment property.

Xu arrived in Australia in 2009 after an aunt in Sydney suggested he try out for a Masters of Finance at the University of New South Wales. He arrived on a student visa but quickly found the combination of fresh air, green open space and range of great job opportunities was a compelling proposition to make a life in Australia.

He became a permanent resident and embarked on his first property purchase as soon as he could to avoid paying what he considered exorbitant rents.

"It was so expensive. I realised it would be better value to buy as soon as I could," he said.

He now owns apartments in Little Bay, Macquarie Fields, Burwood and Rhodes in addition to the recent purchase in Sydney's CBD.

Xu has bought some of the apartments on his own. Other apartments, including the one in the city, were funded with help from his parents, who run an agricultural business in China and invest in equities. They are happy to invest in Australian property, he said, because it's is a much more secure investment than property in China.

"Property prices have gone up so much in China and a lot of people think there is a bubble," he said.

"I think it's actually safer to invest here and I can get a good return."

Affordability was also an issue, he saids, adding that an apartment in Beijing equivalent to his central Sydney flat would cost around A$2m.

"The prices are too high," he said of Beijing. "And people are scared in a few years the prices will go down a lot."

A lower Australian dollar had also made investment more attractive.

His parents are unlikely to ever move to Australia but now that he's married and working as an accountant, he's here to stay.

"It's a beautiful country here, and the environment is so much better. China has really bad air quality and terrible pollution. It makes a big difference."

Local agents have long accepted that Ferraris and a protracted negotiation process are par for the course when dealing with Asian property buyers. But a new crop of buying and selling practices, including "net-to-vendor" agreements, are ruffling feathers.

A number of high-profile exchanges have been negotiated using the net-to-vendor model, which builds an additional "facilitation" fee into the sale price, agents say. A Sydney-based agent speaking on the condition of anonymity says he has seen instances where an intermediary involved in the deal will demand an introduction fee, taken either out of the agent's commission or as a proportion of what the vendor receives.

In these agreements, the fee is shared between the buyers' agent and lawyers, accountants and in-betweens who put the deal in train by introducing a prospective buyer.

It's a practice some local agents call "unconscionable".

"I'm not sure how practices like that fly in Europe or Asia but, frankly, I think it's just taking advantage of buyers," said one agent. "I mean, they're paying a substantial margin to these groups, and the higher price may not necessarily be reflected in the value of the home." Vendors are missing out, too, he says, and are receiving less than they should for saleable, good-quality property.

Other local agents say they understand the custom and are prepared to play ball, arguing it takes a lot of people to convert a businessman, living in one of China's industrial cities and pondering an investment in Australian property, into a buyer signing a deed of exchange.

"I think some people forget these clients are living thousands of kilometres away and, in many cases, have never visited Australia," an agent in Sydney's eastern suburbs said. "It can take a lot of work and numerous introductions to get them to the point where they're seriously thinking about a purchase, not to mention time spent building trust."

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