6/22/2017 Factiva

THE AUSTRALIAN*

SE MarketWatch

HD Records tipped to fall as Chinese investors splash out

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WC 905 words

PD 26 December 2014

SN The Australian

SC AUSTLN

ED Australian

PG 22

LA English

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LP EXCLUSIVE

CHINESE investment in Australian **commercial property** has more than doubled in the past year, with more than \$2.5 **billion** invested.

TD But with a number of major **Chinese** developers still vying to enter the market, and as **Chinese** insurance companies flag a willingness to begin overseas investment, that figure is set to hit a record high in the next year.

Figures compiled by The Australian from **property** services **firm** DTZ show that \$12.176bn has been invested across the office, retail, industrial and mixed-development sectors in the year, compared with \$6.882bn in 2013. Office investment from **China** and **Hong Kong** totalled \$2.506bn for the year, compared with \$954 **million** last year, with major players including Country Garden, **China** Poly **Group** and R&F Properties aggressively purchasing development sites and offices in Sydney and Melbourne.

Other major **Chinese** developers, including Shenzen-based **China** Merchants, Jiangsu Future and Gemdale, are trying to enter the market.

CBRE director Mark Wizel said **residential** developments had been the favoured asset class to date, although this would change over time as **Chinese** companies became more comfortable with the local market.

"Hotels will be the first beneficiary of the active capital due to the fact that a lot of buyers coming from **China** understand the metrics of how a **hotel** operates and just need to apply local market drivers to the asset itself," he said.

"We have seen a major uplift in interest from private **Chinese** buyers wanting to enter the retail shopping centre market as well and this is another key area we feel will grow in 2015." There are more deals close as the year comes to an end.

China's Dalian Wanda Group, headed by one of China's richest businessmen, Wang Jianlin, is finalising its purchase of the Gold Fields House office building fronting Sydney's Circular Quay, although a deal has not yet been done. The harbourside building, which has drawn an offer of more than \$400m from Wanda, is controlled by Blackstone and a group of pension funds, and could be converted into a \$1bn luxury apartment tower.

The deal, first flagged in The Australian last month, is being led by real **estate** firms CBRE and JLL, which declined to comment.

Meanwhile, **Chinese**-backed developer Vision Investment **Group** is nearing the **purchase** of an office building at 338 Pitt Street from AMP Wholesale Office Fund for more than \$104m.

VIG bought another building on the same block, at 233 Castlereagh Street, in November for \$156m. It is understood that the **group** plans a major **apartment** and **hotel project** on the **site** in a joint venture with **Chinese**-backed developer AXF **Group**.

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Gemdale, Shinmao **Property** and <u>Greentown **China** Holdings</u> will all be key players in capital city markets next year, said Mr Wizel, who this month brokered a \$22m deal in Southbank.

"We feel that a lot of the private families and high-net-worth individuals will shift away from **residential** development and will have more of a focus on investment-grade **assets**," he said.

Already, Shanghai-based conglomerate Fosun International, which recently completed the **acquisition** of local **oil** and gas **firm** Roc **Oil** for \$439m, is nearing a deal to **purchase** an Investa **Property Group**-owned tower in North Sydney for \$120m.

Despite the rise in **Chinese** investment, that figure remains considerably below the single biggest source of capital, Singapore, which this year accounted for 36 per cent of total investment across office, retail, industrial and mixed-use markets, according to the DTZ analysis.

More than \$4.423bn in Singaporean capital flowed into Australian **property** this year, an increase from \$1.861bn last year, although the 2014 figure was augmented by the \$2.6bn takeover of <u>Australand **Property**</u> **Group** by Singapore's Frasers Centrepoint.

Additional capital could come from **Chinese** insurance companies, which have so far been reluctant to invest overseas.

Sunshine Insurance became the first **Chinese** insurance **group** to invest directly in Australian **property**, purchasing Sydney's Sheraton on the **Park** in November for \$463m.

Of **China**'s 20 biggest insurance companies, only four have already invested overseas real **estate**, while another eight — including **China**'s second-largest insurer, PICC — have flagged an intention to invest offshore.

While nine of **China**'s biggest developers have already made offshore investments, another eight hope to in the coming year.

While JLL did not forecast future foreign investment growth, Stephen Conry, the agencies chief executive, said there were a number of offshore investors formalising their investment strategies and hoping to make acquisitions in the next 12 months.

"Often the capital is broadly focused on Sydney and Melbourne, although Brisbane and Perth are again more attractive opportunities and decentralisation to non CBD markets is remaining strong," Mr Conry said.

But recent acquisitions by **Chinese** companies "appear to be tentative, quasi-experimental investments," according to a recent Cushman & Wakefield publication. "(These) investments (are) designed not so much to make money, (but) as to learn the ropes of overseas markets," the analysts wrote.

"Having made fortunes in the boom years of **Chinese** real **estate**, many investors are now over-reliant on the performance of the **Chinese** market, with little to hedge against a decline." A 25 per cent appreciation of the yuan has also boosted the buying power of **Chinese** investors driving more outbound direct investment into developed markets, the report found.

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