

SE Business
HD Flood of **China** cash to sow the seeds of a hundred towers

BY Simon Johanson

WC 2,483 words

PD 11 October 2014

SN The Age

SC AGEE

ED First

PG 8

LA English

CY © 2014 Copyright John Fairfax Holdings Limited.

LP

Cover Story

Will the flow of housing investment money be a problem or a solution for Australia? Simon Johanson evaluates.

TD

In a sleek black display room in downtown Melbourne, Adrian Sum is getting ready to launch construction of his first joint-venture Australian **apartment** project.

Mr Sum controls the purse strings of one of **China's** largest **property** developers, and the striking 63-level, 633-unit high-rise Eq Tower is state-owned Sino Ocean Land 's first development foray outside the People's Republic.

It's a "defining moment for Melbourne", the tower's website states. That may be truer than the marketeers realise.

By Mr Sum's standards, Eq is small. His Beijing-based **company's** average **property** project is 10 times Eq's size, with the largest reaching 1 **million** square metres, roughly the size of eight full city office blocks.

Happy but not satisfied with his initial investment, Mr Sum is already on the lookout for more Australian assets. He also has a \$200 **million** mandate to seed an office fund over the next year and, with joint-venture partner ICD **Property**, is eyeing other opportunities in Sydney.

"Because the **Chinese** capital is huge and the direction to go overseas is quite clear, that means that this will accumulate," Mr Sum says.

He's not the only one. A new **Chinese** entrant, Sichuan-based Xiang Xing **Group**, this week spent \$35 **million** buying a development-ready **site** in Melbourne's Southbank.

Another huge state-owned enterprise, Shanghai-based Greenland Holding **Group**, already has four projects on its books worth \$1.4 **billion**.

Its signature \$600 **million** tower on the former Sydney Water **Boardsite** will become the city's tallest **residential** building.

In North Ryde, **China's** richest woman, 33-year-old heiress Yang Huiyan, is heading up Country Gardens' \$500 **million** project, and Fuxing Huiyu Real **Estate** has launched apartments worth \$550 **million** in Parramatta.

Chinese investors are aggressively lifting their Australian **residential** and **commercial** real **estate** investment at a time when the Reserve Bank is warning bubbly **property** markets could be hit with a price correction.

Alarmed by the **property** frenzy in Sydney, Melbourne and parts of Brisbane, the Reserve Bank hit the headlines two weeks ago, putting banks on notice they were being monitored and potentially facing tougher controls, so-called macro-prudential tools or constraints on lending. It was reacting to momentum that has been building since this time last year, when it issued another warning about the explosive growth of self-managed superannuation funds' **property** debts and the risk they posed to the country's financial system.

That, in turn, kicked off a familiar bubble debate which has played out over the intervening 12 months. "No housing bubble here, says Hockey", a 2013 headline read.

Foreign investment has become an even greater force in driving up prices over the past six months, the **property** industry believes.

The October Australian **Property** Institute **Property** Directions survey found 96 per cent of Sydney respondents felt foreign investment was a significant driver, up from the 88 per cent it registered in May.

Australia's buoyant **property** market shows no sign of abating, pushed by fierce competition and local and international investors' enthusiasm.

All 159 apartments in Lend Lease's first release of Sydney's Barangaroo development **sold** out at an early Saturday morning launch in August, including the penthouse, which went for \$10.5 **million** to an Australian expat living in Geneva.

Spurred by a record 15-month run of historically low interest rates, Australian dwelling values rose 9.3 per cent over the 12 months to September. Sydney's homes rose 4.3 per cent and Melbourne's 8.1 per cent over the same period, RP Data figures show.

Investors paused for breath in August, housing finance data shows, with loans falling slightly by 0.9 per cent. But debt for new dwellings continued its upward trajectory, rising a healthy 2.5 per cent.

Adding to the Reserve's headache will be the latest housing debt data. It shows the average Australian household's ratio of debt to disposable income, or the proportion of wages spent servicing mortgages, has hit a record high.

Some **property** observers maintain the current frothy market is not an evolution but a revolution that is here to stay. With the world's wealth funnelling in, it is not difficult to see why.

Australia's **property** market is operating in an international context now, says Sam Nathan, a former analyst at Charter Keck Cramer. Sydney and Melbourne are on a par with other global cities where **apartment** markets, particularly in city centres, are "now driven by geopolitical influences as international developers diversify from their country and market of origin", he says.

London's huge £8 **billion** (\$14.7 **billion**) redevelopment of the Battersea Power Station is being led by Malaysian **firm** S P Setia Berhad, which is also building the upmarket Parque apartments at 555 St Kilda Road in Melbourne.

When Australia emerged from the 2008 global financial crisis with a stable economy and one of the strongest **property** markets in the world, it became a tempting foreign-investment target.

The investment trickle became a flood as prices ratcheted up in London, and Singapore - amid fears of the **island** city's housing overheating - introduced restrictions on local and foreign ownership. They were soon followed by **Hong Kong** adding an extra 15 per cent stamp duty on overseas buyers and Canada cutting its **millionaire** visa program.

Aided by Australia's liberal foreign-investment rules which allow unlimited sales of new homes, **Chinese** investors and newly arrived immigrants spent \$24 **billion** on Australian **residential** real **estate** over the past seven years, a well-publicised Credit Suisse bank report estimates.

And they will spend nearly double that, another \$44 **billion**, over the next seven, starting with about \$5 **billion** this year, it says.

The home-buying spree does not include other **transactions**.

Across all other sectors, excluding **residential** real **estate**, **China** last year spent \$11.1 **billion**, second only to its direct investment in America, KPMG and the University of Sydney's Demystifying **Chinese** Investment in Australia index shows.

Most went to buying Victorian electricity assets, gas or **mining** deals around the country, with **commercial** real **estate** taking a relatively small 14 per cent share.

The rise of Asian **property** investment over the past five years is different to the wave of Japanese capital that washed through the **Gold** Coast and other Australian regions in the late 1980s, investment bankers CLSA say.

That boom-to-bust cycle saw investment by highly leveraged, yield-chasing Japanese corporations rise from zero to \$65 **billion** in the space of a few years, only to collapse again by 70 per cent in 1992, with **billions** eventually wiped off their balance sheets.

In Queensland, particularly, the pain was felt for years.

International agency CBRE says the source of global investment flows into Australia has inverted over the past two years, with Asian capital now taking two-thirds of total **property** investment and other countries one-third.

"The mix in the source of capital to Asia is likely to continue, with more capital emerging from Asian markets and Australia attracting an above-weight share of these flows," its most recent Capital Attraction report says. It is an investment thesis that Mr Sum supports.

For the past two years **China's** central government has been relaxing requirements for outbound investments that require its approval.

"They know that to invest overseas can sometimes serve as risk management to balance their portfolio. This is not just happening to individuals, the whole country shares in this kind of mentality," Mr Sum says. "It is just the beginning of a long-term vision, this goal to go overseas."

"Even the corporates, like insurance companies, are starting to allocate a certain percentage of their investment portfolio into different overseas markets."

A new raft of easing policies will take effect this week, Savills' **Hong Kong**-based research director Simon Smith said this week. They are likely to further spur the flow of money heading overseas looking for better returns.

China has been booming for a decade but is now showing signs of slowing. "Now in our own market, more or less, we have reached certain capacity," Mr Sum says.

Its housing is in oversupply. The number of apartments in Shanghai is expected to double next year to total 1.1 **million** square metres. One new project in Shanghai's redevelopment precinct is the size of both Melbourne and Sydney's CBDs put together, Mr Smith says.

As a result, house prices, which rose to record highs for five consecutive years, are now experiencing a sharp deceleration.

China's developers are being encouraged to go overseas and get experience with other countries' rules, regulations and cultures, either on their own or in joint ventures. "Their main hurdles are lack of expertise and capability, so they are just dipping a toe in the market. They want to get practice," Mr Smith says, and they can "afford to fail".

The capacity of large Asian firms to self-finance, build and sell Sydney and Melbourne apartments to overseas buyers has radically changed the dynamics of the **property** market, CBRE's Mark Wizel says.

"The motivation of the developer and **apartment** buyer are aligned," Mr Wizel says. "The part that nobody really saw was the explosion of interest from mum and dad **Chinese** investors, who are buying apartments off-the-plan with the same level of aggression and vigour as the developers are buying land."

Overseas **property** is a prized asset for wealthy **Chinese** keen to **park** their money and mitigate the economic and political risk of having it tied up in the People's Republic.

Vancouver, London, Sydney and now Melbourne are the cities of choice. Feeding their desire is a passion for **property** that even surpasses Australia's love of realty.

An astonishing 10 **million** of **China's** newly minted top-income families aspire to emigrate here, CLSA estimates in an August report, **Chinese** Investment and Oz Housing.

Chinese nationals were the second-largest **group** of permanent migrants behind British citizens last year, and made up the largest share of international students, according to Australian government figures.

Servicing just half of that desire would fill Australia's current annual net overseas migration quota for the next 61 years.

"Their motivations aren't always about saving. A lot of **Chinese** have an end goal to emigrate here," says Joseph Zaja, whose Ausin **Group** is on target to sell 2000 Australian apartments and new homes to **Chinese** buyers this year.

"The majority are very conservative. They're buying to diversify their wealth into an established **property** market and economy such as Australia."

They want clean air, a good education and a solid legal system.

"**Chinese** residents want to emigrate to English-speaking countries, where there is a strong common law process. A good education system is essential and, as **China**'s pollution problems escalate, a clean environment is becoming more important," CLSA's report says.

"I don't think there's any chance of it ending any time soon," Mr Wizel says.

Forty per cent of Eq Tower was **sold** to offshore investors, a not uncommon occurrence in today's international market.

They are a big factor even for local developers. Offshore buyers take between 13 and 20 per cent of Meriton's apartments without any direct marketing, Sydney **billionaire** Harry Triguboff says.

Within two years the proportion of overseas buyers in Australand's developments has risen from 5 to 18 per cent, executive general manager of **residential** Rod Fehring says. "It's quite a substantial change because Sydney has come alight. It's always been an attractive location for investment and, surprise surprise, the projects that we're producing are attracting offshore interest," he says.

Melbourne's skyline will blossom with another 42 new skyscrapers to cater for demand if the state government approves all current proposals over 25,000 square metres on its books when there are already fears of a big oversupply.

Amid the hum of activity, there are warning signs of overreach.

In echoes of Queensland's previous Asian-led **property** boom, one of **China**'s largest **property** developers, Dalian Wanda - headed by the country's richest man, the flamboyant and acquisitive Wang Jianlin - will splash out \$1.7 **billion** on local real **estate**, starting by developing the **Gold** Coast's Jewel high-rise and **hotel** complex.

Mr Jianlin's ambitious international expansion has seen him **purchase** the US' largest movie chain, AMC Theatres, Sunseeker Yachts and two London high-rises.

Aggressive buying, primarily by overseas developers, has seen Melbourne's CBD land prices triple over six years, Charter Keck Cramer figures show.

But the construction multiplier effect is supporting jobs, building material businesses and white good manufacturers, a sizeable section of the economy.

Some companies which have a strong pipeline of forward projects, such as Lend Lease, Fletcher Building, Mirvac and Goodman, stand to benefit most from the boom. "Goodman may seem like an odd choice for a **residential** beneficiary, but it has identified that it can develop 35,000 apartments in Sydney and Melbourne, converting from its inner-ring industrial assets," CLSA says.

For Mr Sum's **company**, Australia is the first stop in its global expansion. "We are not doing the investment decisions in a haphazard or subjective way," he says. "**China** has reached another stage. They have got to consider overseas investments. It's a new beginning; \$200 **million** is a humble figure but it is talking about our commitment."

Chasing the dragon

Developer

Greenland Holding **Group**

Development

Sydney Water **Boardsite**, Sydney

\$600 **million**.

Developer

Sino Ocean Land

Development

Eq Tower, Melbourne

63 levels

633 units.

Developer

S P Setia Berha

Development

Parque,

Melbourne

332 apartments,

19 storeys.

China

No full ownership of **residential property** or land (citizens usually **buy** 70-year leases). Foreigners must work or study in **China** for more than a year to **buy property**. In **Hong Kong** they pay an additional 15 per cent stamp duty.

Singapore

Foreigners cannot **buy** private **residential property**. They can **buy** apartments in approved buildings but must pay an additional stamp duty of 15 per cent.

Indonesia

Foreigners cannot own freehold **property**. They can **buy** apartments but the **property** title remains with the developer.

Japan

No restrictions on overseas ownership of land or buildings.

Vietnam

Foreigners can **buy** apartments (but not houses) for a duration of 50 years.

Malaysia

Since this year, foreigners can **buy property** valued over \$330,000 but must get government approval.

India

Non-resident foreigners cannot **purchase property**.

Resident foreigners can **buy property** subject to various caveats.

Australia

Foreigners can **buy** new **property**, both apartments and houses. They cannot **buy** established dwellings.

NS ereal : Real Estate Markets | e11 : Economic Performance/Indicators | ecat : Economic News

RE austr : Australia | china : China | melb : Melbourne | sydney : Sydney | victor : Victoria (Australia) | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRICS Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | easiaz : Eastern Asia | nswals : New South Wales

PUB Fairfax Media Management Pty Limited

