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HD **Australian economy builds on China demand for property**

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A crane is hoisting girders into place at one of dozens of partially built apartment blocks that are sprouting up along Sydney's skyline, the construction of which is giving a welcome lift to Australia's fragile economy.

"Sydney is where the boom is," says Harry Triguboff, an 81-year-old property developer and building tycoon who is Australia's sixth-richest person. according to Forbes.

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"I'm probably building between 2,000 to 2,500 apartments at the moment and I'm trying to increase this because prices are good and demand is strong."

Mr Triguboff, who is known locally as "High-rise Harry", is part of a nascent housing construction boom that is being driven by surging Chinese demand for Australian property. Canberra and the Reserve Bank of Australia hope it can play a key role in rebalancing the economy as a decade-long mining investment spree comes to an end.

On Wednesday, there were signs the diversification strategy may be working, with gross domestic product rising 0.8 per cent in the three months to the end of December - slightly faster than most economists expected.

Exports were the star performer, adding 0.6 percentage points to expenditure on GDP, due mainly to a weaker dollar. Investment in housing rose 1 per cent in the fourth quarter, compared with the previous three months, but is forecast to grow faster over the following year.

Australia has enjoyed 22 years of consecutive growth - one of the best records of any developed countries. Surging demand for its minerals from China has helped the "lucky country" navigate the global financial crisis by driving business investment and exports.

But as the mining investment boom tails off, unemployment is rising and confidence remains fragile.

In spite of Wednesday's better than expected GDP growth - 2.8 per cent year on year, according to the Australian Bureau of Statistics - the economy is still operating below its 3 per cent long-term average growth rate.

"The key challenge is managing the mining boom transition from a resource-intensive investment phase to an export phase," says Alan Oster, chief economist at National Australia Bank.

"It is not about GDP growing in a quarter. It is about restructuring the Australian economy so it can offset the 20 per cent year-on-year fall in mining investment, which is coming," he says.

Business indicators present a mixed picture of the economy's health. Business investment fell 5.2 per cent to A$38bn in the three months to December 31, compared with the previous quarter, due mainly to a drop in spending on capital equipment and machinery.

Unemployment crept up to 6 per cent in January, a 10-year high, and is forecast to climb higher with tens of thousands of manufacturing job losses at carmakers, mining investment companies and Qantas, the national airline.

Richard Gibbs, chief economist at Macquarie **Group**, highlighted increasing exports of commodities and services, particularly in the education and healthcare sectors, and growth in tourism as key to Australia's diversification strategy.

There are signs consumer spending is picking up with Coles, the supermarket chain, on Wednesday announcing the creation of 16,000 jobs with a A$1.1bn investment in 70 new stores. **Residential** construction is another important sector, says Mr Gibbs.

Record low interest rates of 2.5 per cent are beginning to drive a pick-up in construction. Figures show planning approvals for new dwellings in Australia rose more than a third year on year to 17,514 in January. The rate of approvals for apartments is up 46 per cent in the same period.

"Low interest rates and **Chinese** buyers are driving the Sydney market," says Mr Triguboff, who has built almost 60,000 apartments through his **company**, privately held Meriton **Group**. "In some areas I sell up to 70 per cent of apartments to **Chinese** buyers," he says.

A report published by Credit Suisse this week estimates **Chinese** buyers are spending $5bn a year on Australian **residential property**, which accounts for one in eight new dwellings nationwide. In Sydney **Chinese** buyers, split evenly between non-residents and settlers, account for 18 per cent of **purchases** of new dwellings.

"We estimate the number will rise by 30 per cent by 2020," says Credit Suisse. "This should support a further $44bn of Australian **residential property purchases** over the next seven years."

If this forecast is accurate, it is good news for Australian economic growth - and for Mr Triguboff, who recently broke his longstanding tradition of not using debt financing to expand his business.

"I probably went from having A$600m in the bank to owing A$350m," he says. "I'm still optimistic about the future . . . Housing, if it can be built quickly, is good for the economy," he says.

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