FINANCIAL REVIEW

SE Property

HD **Prices rise as foreign developers beat out Aussie buyers**

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The price of urban development land in Sydney and Melbourne is surging as offshore developers outbid local buyers for tightly held inner-city properties.

As competition intensifies for the dwindling pool of properties suitable for residential development, CBD sites with existing properties are being thrown into market as well.

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In the past year the national average of land acquisitions by offshore developers has passed $20,000 a square metre.

That figure, compiled by property consultants Deep End, accumulates values from CBD deals, as well as city fringe and suburban deals.

Private investors, sovereign funds and listed players from China, Singapore and Malaysia have forged into the Australian market in the past two years especially, adding to demand.

"It's a sign that the market has become more competitive and the number of sites available has started to reduce, so competition per site is increasing," Deep End principal Kevin Stanley said.

"There's fewer sites and more potential developers, so naturally the competition is rising."

Among those setting the pace are Chinese players such as state-owned enterprise Greenland, Malaysian sovereign wealth player UEM Sunrise, and Singapore's largest private developer Far East Organisation.Brothers buy up Melbourne

Also from Singapore, tycoon brothers Koh Wee Meng and Koh Wee Seng, who control listed groups Aspial and Fragrance Group, have snapped up Melbourne sites in the past six months.

"Because purchasers are now buying sites that have buildings on them, then they are paying a lot more for those.

"They are actually paying for the asset as well," Mr Stanley said.

"In behind these numbers there is a shift in what is being bought. That's important to understand. It tells you that market is getting very tight and that buyers have to now buy assets to find a site to put a residential tower on.

"Before, what they would have been buying was sites that were semi-industrial in use."

In June, the new partnership between Toga Hotels and Far East purchased 280 George Street in Sydney at 16 per cent above its book value with a view to redeveloping it into a hotel or serviced apartments.

In Melbourne, Fragrance Group's acquisition of 555 Collins Street, flagging plans to redevelop a site occupied already by a 24-storey tower, set a record land value of $35,000 a square metre in a deal handled by CBRE's Mark Wizel and Josh Rutman.

Mr Stanley said higher land prices in the initial deals will flow through into higher prices for apartments.

Two-bedroom apartments in Sydney's new Greenland Centre were selling for $1.85 million in April this year.

In Melbourne, listed Malaysian PJ Development put up $145 million to acquire a two-hectare site at 93-119 Kavanagh Street in Southbank in record land deal in June.

The Malaysian group is eyeing a $1.5 billion mixed use project at the site.

Knight Frank's Paul Henley, who brokered the off-market deal, said offshore players have an advantage with access to cheaper debt and are not constrained by limits from local banks on sales to foreign buyers.

"They also have access to a ready-made supply of buyers back in their home markets," he said.

"There's less risk and it's cheaper to sell to their networks."

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