Australian real estate loses some of its shine

Foreign buyer demand falls as tax reforms and a strict purchasing limit deter Chinese investors

A retail and residential development site is pictured in Sydney on July 4 last year. Chinese investment in Australian property is falling as a result of new Australian taxes on foreign property investors, credit restrictions by Australian banks and China's crackdown on currency outflows. AFP

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Australian property was once seen as a safe bet for Chinese investors.

It was relatively cheap and easy to buy, but the gloss is starting to go off the market due to a combination of new Australian taxes on foreign property investors, credit restrictions by Australian banks and China's crackdown on currency outflows.

Analysts say the amount of cash flowing out of China into property has halved in the last year. While they say Australia is still popular with Chinese investors, other markets like Thailand, Malaysia and even Cambodia are also becoming appealing.

In its latest report, real estate firm Cushman & Wakefield and Real Capital Analytics said the Chinese mainland's third-quarter total outbound real estate investment plunged 51 percent year-on-year to $2.5 billion, the lowest total in 14 quarters, or since the last quarter of 2013.

Monika Tu, founder and director of real estate agency Black Diamondz Group International, said: "We have noticed there has been a drop in Chinese investors coming to Australia."

Tu, whose company has been dealing with the top end of Sydney's residential market for nine years, said the number of Chinese investors looking at Australia "has definitely dropped in the last year or so".

"Increasing stamp duty for foreign investors from 4 percent to 12 percent and state governments looking at introducing a vacancy tax for unoccupied investment property has not helped the market," she told *China Daily Asia Weekly*.

But is she worried?

"Not really. There is a lot of money out there, especially Chinese looking at property, except they are not as keen on Australia as they once were."

One of Australia's biggest developers, Harry Triguboff, managing director of Meriton, said higher charges on foreign buyers could see major developers leave Australia's apartment market altogether.

"It's not bad, it's very bad," Triguboff told the *Australian Financial Review* in January.

"When we start saying that stamp duty for foreign buyers should be 12 percent instead of 4 percent, that is called stupid."

Triguboff said foreign buyer demand started to soften more than a year ago, leading to presale prices getting "lower and lower".

This was supported by the latest ANZ/Property Council of Australia's survey of 1,700 property professionals around Australia, which showed a sharp drop in foreign buyers.

The survey said the number of foreign investors purchasing Australian property is forecast to dip significantly as tax hikes across the country take their toll.

Tax hikes

The recent tax reforms, as the government tries to open housing supply to local first-time home buyers, is generally thought to be the reason for the downturn in foreign investment.

In Australia's most populous state New South Wales, the 2017 Budget increased the stamp duty surcharge for foreign investors from 4 percent to 8 percent and increased the annual land tax surcharge from 0.75 percent to 2 percent for foreign investors.

Capital gains tax exemptions, previously available to overseas buyers, were also removed in a raft of changes introduced in the budget. New residential developments also face a 50 percent ownership cap.

In Victoria, from July 1, 2016, foreign investors have had to pay an additional 7 percent tax on top of their land transfer duty.

In addition to these tax hikes are tough investment rules from the Chinese government, where individual buyers have an annual $50,000 limit on foreign currency purchases.

A recent report from investment bank UBS said Chinese demand for Australian residential real estate is expected to take a hit once new state and federal tax amendments come into effect.

While 78 percent of all property transactions by overseas Chinese buyers took place within the past five years, interest has already "started to fade over the past six months", according to UBS.

"I think it's the combination of factors. Prices have been very strong in Australia so there is now a discussion that the cycle has started to peak and there's the tax changes that have come through along with the tax controls," said Kim Wright, head of global property research with UBS.

Where Chinese buyers initially focused their attention on the London property market, their attention eventually migrated to Australia, with investors snapping up property in Sydney, Melbourne and Brisbane over the past two years, UBS said.

But that interest is now shifting again, with Thailand expected to become the next area of interest — in particular Bangkok.

A 2017 UBS survey found that of all property bought by Chinese, only 75 percent ended up being actually occupied, while 25 percent only used their purchased properties "occasionally".

Carrie Law, however, disputes some of these reports that Chinese investors are leaving the Australian market.

The CEO of Juwai.com, a leading Chinese international real estate website, said: "Chinese buyers are still taking one-fifth of all newly constructed apartments.

"These are the buyers who are keeping the construction industry at work and making it possible for new buildings to go up.

"To put it in perspective, the Foreign Investment Review Board (FIRB) approved $24 billion of Chinese real estate investment in 2015. That was more than the next five or six biggest investing countries put together," she said.

Investment drivers

Approved Chinese real estate investment in Australia has soared in this decade, from $4 billion five years ago to $31.9 billion last year, according to the FIRB data.

"Without Chinese investment making it easier to build more apartments, Australia's capital cities would be facing a graver housing shortage than they are today," Law told *China Daily Asia Weekly*.

"The top Australian cities for Chinese buyers are Melbourne, Sydney, Brisbane, Adelaide, the Gold Coast and Perth. The most important investment drivers are education, quality of life, and asset diversification."

She said Chinese wealth generation drives this investment.

"For the first time, there are now 1.6 million US-dollar millionaires in China. Wealth per adult in China has more than quadrupled over the past six years.

"Consumer research in China by FTCR (Financial Times Confidential Research) shows that more than 60 percent of Chinese overseas investors intend to make new overseas real estate investments by 2020."

Research by investment bank Credit Suisse's economics and equity teams recently found Chinese capital flows are tightly correlated to Sydney housing prices, with movements affecting property demand 12 months down the track.

"Over the past few months, the Sydney housing market has not only cooled down, but has arguably turned cold," Credit Suisse wrote.

"Over the past year, Chinese capital flows have fallen considerably, in part reflecting the impact of stricter capital controls."

Credit Suisse said there was some "anecdotal evidence", such as lower online interest for Australian property coming from China and real estate agents reporting large sales declines in the sector, indicating reduced Chinese buying activity.

"The failure of local variables to explain the housing cycle suggests that there must be a strong foreign component to demand," Credit Suisse said.

It said at a micro level, Chinese buyers drive up valuations in certain areas such as expensive suburbs and apartment blocks.

"But this has positive spillover effects for pricing in other segments of the market. We believe that Chinese buyers spark the cycle, while local investors chase the momentum," Credit Suisse said.