

Urban Density, Real Estate Investment and the Asia-Pacific Region

by

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A Whirlwind of Issues

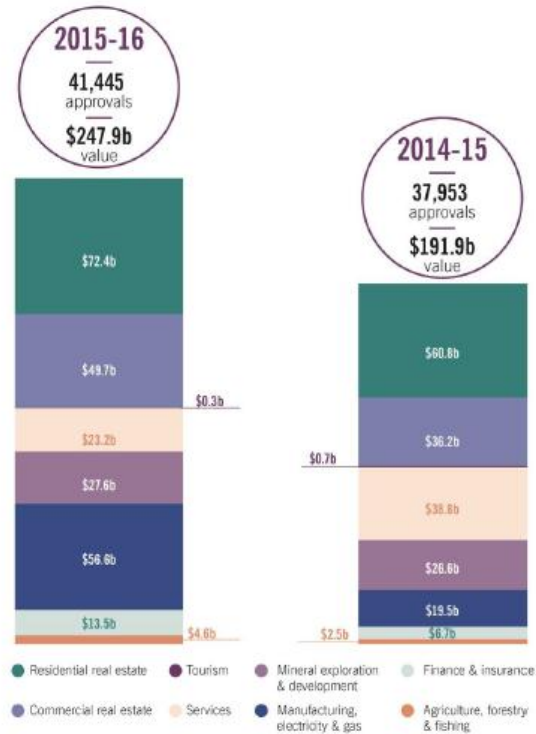
- FIRB
- Chinese investment in Australian Real Estate
- Residential real estate issues in Asia-Pacific
- How is this influencing the Australian market.

The FIRB View

- Foreign Investment Review Board (FIRB)
 - Import vs Export \$
 - Drive economic growth, creates skilled jobs, improves access to overseas markets and enhances productivity
 - Construction investment and improve housing supply.
 - Creation of 3 new registers.
 - Remove the exemption for private foreign investors acquiring an interest in critical infrastructure assets purchased directly from state and territory governments.

Value of FIRB Applications to 2016

Proposals data overview



Real estate

\$122.1b
approved investment



Fee system implemented from 1 December 2015

When considering this data please note:
Approvals data do not measure total foreign investment made in any year or changes in net foreign ownership levels in Australia. Approvals data can be impacted by large one-off proposed transactions, affecting the comparability of industry data across years.

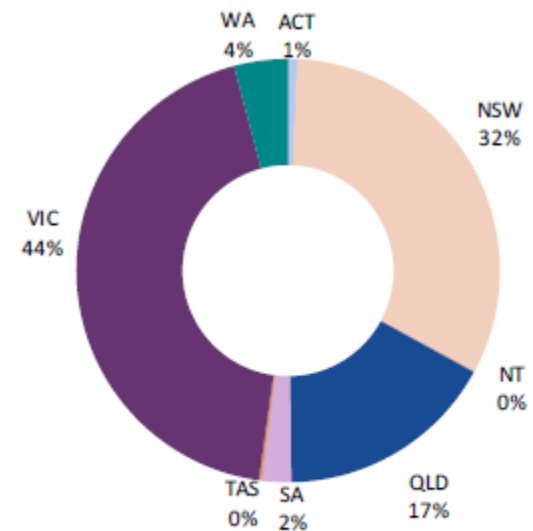
FIRB Approvals Type and Location

Chart 3.3: Location of foreign investment approvals
(1 July 2010 — 31 March 2015)



Note: Melbourne postcodes between 3000 and 3207; Sydney postcodes between 2000 and 2234
Source: <http://treasury.gov.au/PublicationsAndMedia/Publications/2016/Foreign-Investment-and-Residential-Property-Price-Growth>.

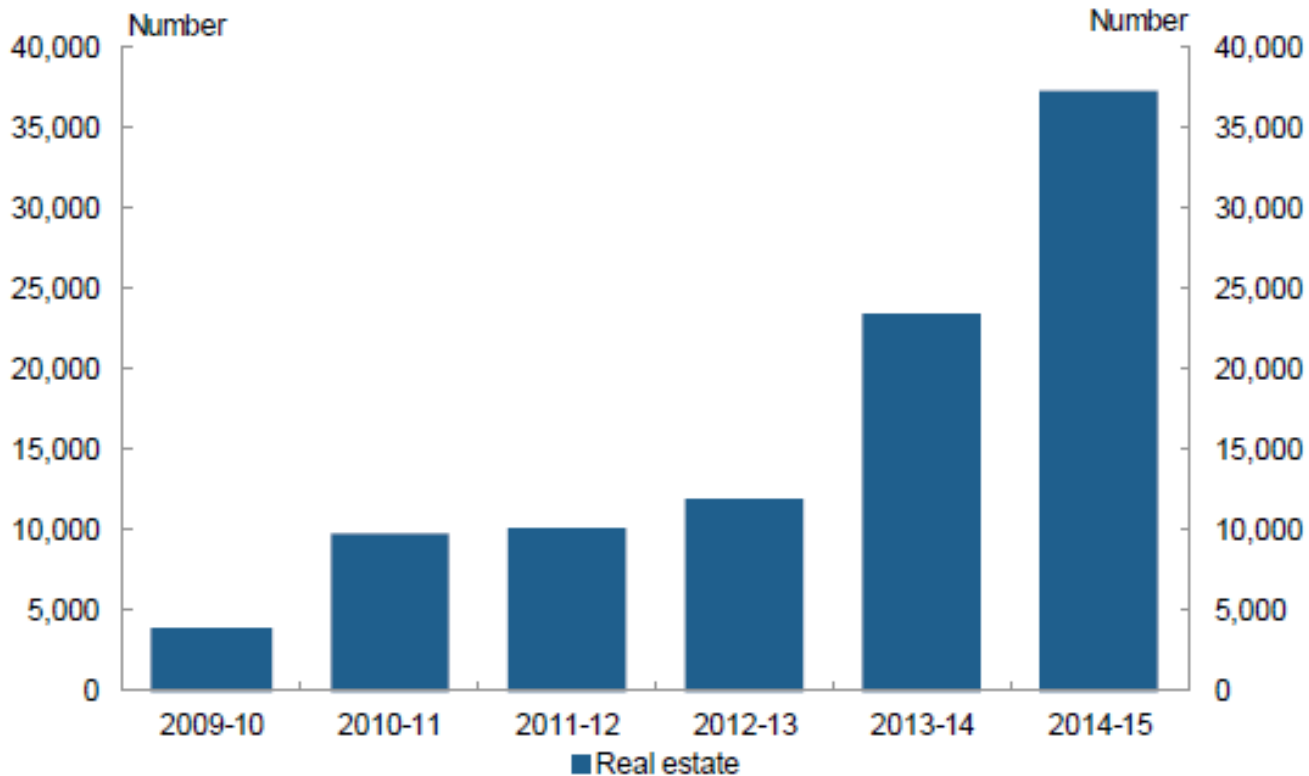
Chart 3.2: Number of approvals by State & Territory



Three-quarters of all residential real estate approvals were for purchases in Victoria and New South Wales. This is consistent with recent years and reflects strong demand for residential property in Sydney and Melbourne.

Combined Real Estate Application Decisions

Chart 2.2: Real estate applications decided 2009-10 to 2014-15
(number of proposals)



Note: Real estate includes number of proposals decided for commercial and residential real estate.

Commercial Real Estate

Table 2.9: Investment in commercial real estate by type of approval and number of proposals approved: 2011-12 to 2014-15

	2011-12		2012-13		2013-14		2014-15	
	No.	\$b	No.	\$b	No.	\$b	No.	\$b
Commercial								
Developed								
- existing commercial property	241	22.44	248	19.24	237	31.65	313	28.48
- annual programs	18	10.75	14	7.31	10	3.48	18	3.11
<i>Sub-total 'Developed'</i>	<u>259</u>	<u>33.19</u>	<u>262</u>	<u>26.55</u>	<u>247</u>	<u>35.13</u>	<u>331</u>	<u>31.60</u>
For development								
- vacant commercial property	80	4.96	85	7.04	119	2.86	155	2.36
- annual programs	11	1.27	10	1.16	8	1.89	20	2.19
<i>Sub-total 'For development'</i>	<u>91</u>	<u>6.23</u>	<u>95</u>	<u>8.20</u>	<u>127</u>	<u>4.75</u>	<u>175</u>	<u>4.55</u>
Total commercial	<u>350</u>	<u>39.42</u>	<u>357</u>	<u>34.75</u>	<u>374</u>	<u>39.88</u>	<u>506</u>	<u>36.15</u>

Note: Totals may not add due to rounding.

Overall Investment in Residential Real Estate

Table 3.10: Investment in residential real estate by type of approval and number of proposals approved: 2012-13 to 2015-16

	2012-13		2013-14		2014-15		2015-16	
	No.	\$b	No.	\$b	No.	\$b	No.	\$b
Residential								
Developed								
- existing residential property								
- individual purchases	5,091	5.4	7,915	7.2	9,236	10.1	5,632	6.9
- Established dwelling EC*	na		na		na		244	0.4
<i>Sub-total 'existing'</i>	<i>5,091</i>	<i>5.4</i>	<i>7,915</i>	<i>7.2</i>	<i>9,236</i>	<i>10.1</i>	<i>5,876</i>	<i>7.3</i>
- exemption certificate [^]	10	0.9	5	0.4	11	1.4	1	0.0
<i>Sub-total 'Developed'</i>	<i>5,101</i>	<i>6.4</i>	<i>7,920</i>	<i>7.5</i>	<i>9,247</i>	<i>11.5</i>	<i>5,877</i>	<i>7.3</i>
For development								
- vacant land	1,821	1.4	3,150	1.7	5,908	2.5	7,005	2.8
- new dwellings								
- individual purchases	4,499	2.9	11,338	7.7	20,551	14.4	26,052	19.3
- New dwelling EC	50	5.7	103	16.4	152	28.7	201	38.4
<i>Sub-total 'new dwellings'</i>	<i>4,549</i>	<i>8.6</i>	<i>14,591</i>	<i>25.9</i>	<i>20,703</i>	<i>43.1</i>	<i>26,253</i>	<i>57.6</i>
- redevelopment	189	0.4	534	0.8	972	2.3	988	2.8
- exemption certificate [^]	8	0.4	9	0.6	11	1.4	18	2.0
<i>Sub-total 'For development'</i>	<i>6,567</i>	<i>10.8</i>	<i>15,134</i>	<i>27.2</i>	<i>27,594</i>	<i>49.2</i>	<i>34,264</i>	<i>65.2</i>
Total residential	11,668	17.2	23,054	34.7	36,841	60.7	40,141	72.4

Note: Totals may not add due to rounding.

* Established dwelling exemption certificates were introduced with the 1 December 2015 reforms.

[^] From 1 December 2015, annual programs under the new provisions in the Act are known as exemption certificates.

The 2015-16 figures were impacted by the 1 December 2015 reforms, which may affect data comparability.

Proposed Real Estate Investment in Tasmania

Table 2.10: State and Territory distribution of proposed investment in real estate in 2014-15

Location	Number of approvals	Residential		Commercial		Total
		Developed \$b	For development \$b	Developed \$b	For development \$b	
ACT	332	0.17	0.41	0.99	0.22	1.79
NSW	12,349	3.99	16.24	13.84	0.87	34.94
NT	88	0.11	0.12	0.64	0.20	1.08
Qld	5,023	1.04	9.38	5.37	1.52	17.30
SA	1,024	0.43	0.38	1.26	0.29	2.35
Tas	131	0.14	0.14	0.58	0.19	1.06
Vic	16,775	4.97	20.61	4.83	0.86	31.27
WA	2,043	0.65	1.97	1.74	0.39	4.74
Various (a)	46	-	-	2.36	0.01	2.37
Total	37,811	11.50	49.25	31.60	4.55	96.90

(a) Comprises approved proposals where the proposed investment is to be undertaken in more than one state or territory.

Note: Totals may not add due to rounding.

‘-’ indicates a figure of zero or a figure less than \$10 million.

What Makes Australian Real Estate Attractive?

- FIRB regulatory environment
- Stable economic conditions
- Excellent property regulatory environment
- Low rental yields but higher than some countries
- High capital growth
- Outright ownership vs land lease
- Low deposit requirements

Chinese Investment in Australia

Chinese investment by deal size

In 2015, there were seven mega-sized deals of AUD 500 million or more each, with four well over AUD 1 billion.

Major transactions included:

- 18 megadeals in 2016
- Dominated by megadeals, 7 in 2015, 2 were commercial real estate, all were Chinese
- 78% of all deals were private investors
- 49% of investment is in NSW

Selected major Chinese investments into Australia in 2015

Target Name	Investor Name	Industry Sector	Location	Value of Transaction (AUD mil)
Pacific Hydro	State Power Investment Corporation	Renewable Energy	VIC	3,000.0
Investa office portfolio	China Investment Corporation(CIC)	Real Estate	NSW	2,450.0
Swisse Wellness	Biostime	Healthcare	VIC	1,380.0
PanAust Ltd	Guangdong Rising H.K (Holding) Limited. "GRAM"	Mining – copper and gold	QLD	1,200.0
Health Care	Luye Medical Group	Healthcare	NSW	938.0
Port of Darwin	Landbridge	Infrastructure	NT	506.0
Santos	Hony Capital	Energy	SA	500.0
Sydney Hilton	Bright Ruby	Real Estate – Hotel	NSW	442.0

Source: KPMG/University of Sydney database

China's Push Factors

- Overall real estate investment increased but residential real estate is slowing.
- Growth is in commercial premises



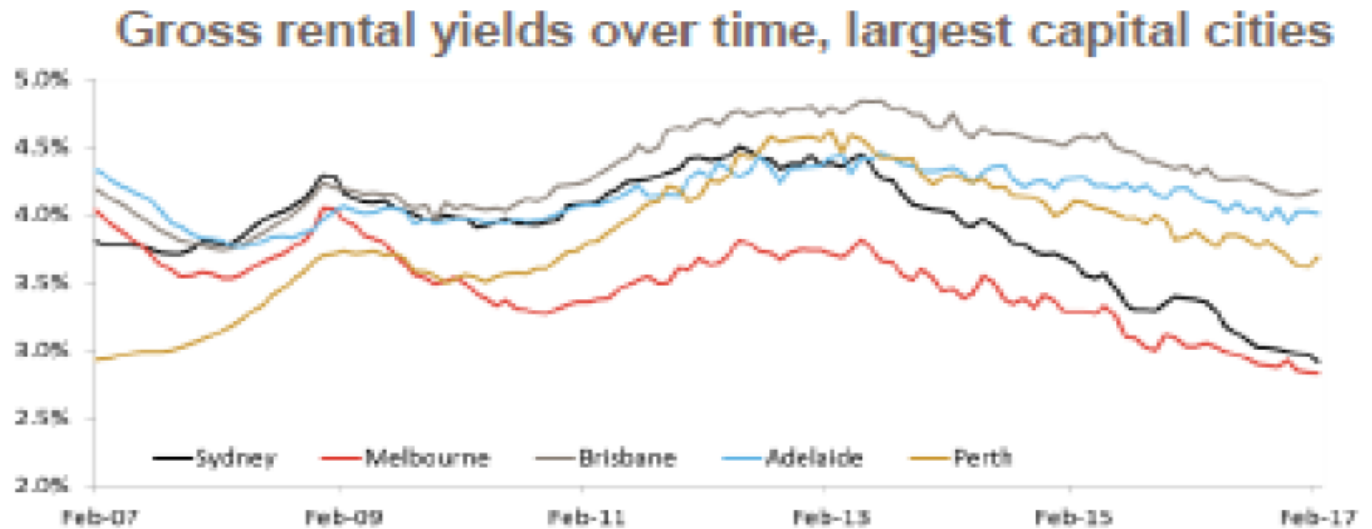
- previously plazas and hotels
- now hotels and health care.

Source: FIRB Annual Report 2016

Why Has It Changed?

- Rental yields gap closes and Aust. house prices increase.
- Australian property is still seen as a safe investment option.

Gross **yield** =
annual rental
income/property
value x 100.



Source: KPMG/University of Sydney database

What's Happening in China?

- Fluctuating Chinese currency (RMB)
- Unstable economic conditions
- Difficulties in accessing loans
- 30% deposit requirement
- Restrictions on buying urban properties
- Low rental yields
- Restrictions and poor performance of rural property
- Poor property regulatory environment and black market ownership

Source: Altmann, E & Yang, Z (2017)

Chinese legislative changes

State Administration for Foreign Exchange (SAFE)

- 2015 Property ownership restrictions
- 2016 [Chinese State Administration of Foreign Exchange](#) imposed restrictions
- 2017 Outgoing monetary restrictions imposed

(Zhixuan Yang, Dongbei University/University of Melbourne)

“Chinese buyers would look for other ways to get money out of the country”.

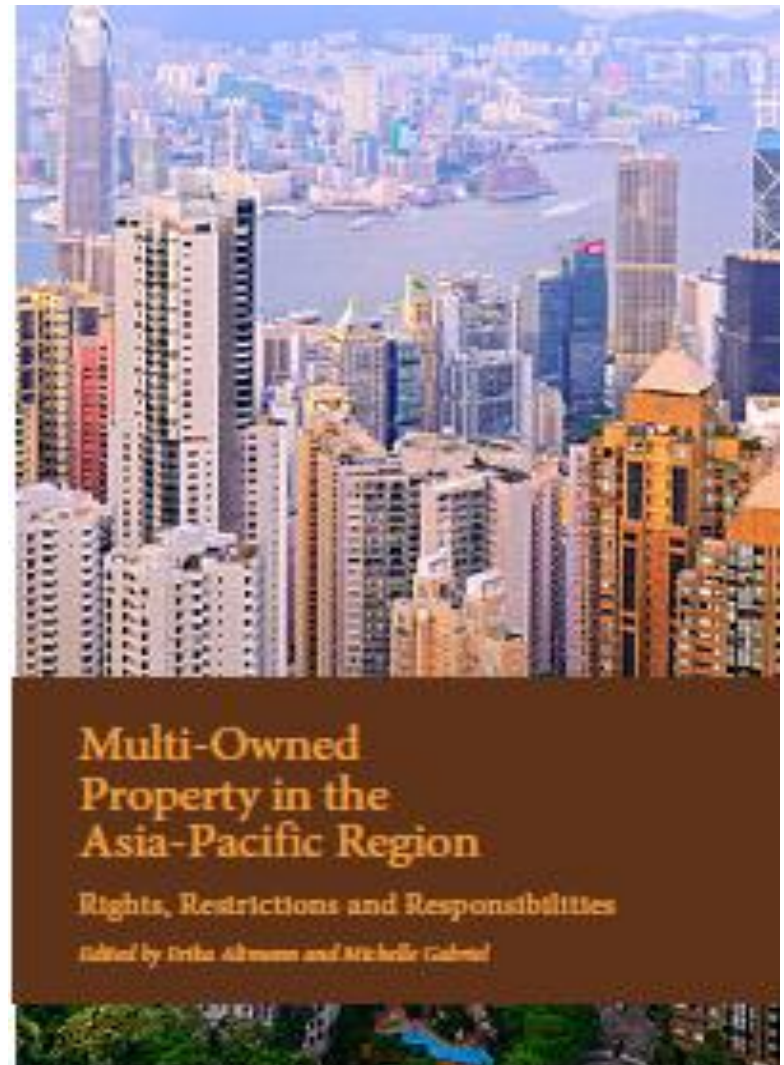
(Esther Yong, Director ACproperty & Sodichan)

The Future for Real Estate Investment

- Off the plan to Chinese and other Asian nationals
- Black market economies already have cash export economies in place
- Easier to purchase share in commercial property than residential property outright
- Commercial yields and demand is in health
- Australian rural land becomes more attractive than residential
- China is likely to continue to have their own housing affordability crisis

Apartments in Asia – Pacific countries?

- Townification
- Segregation - haves vs have nots
- Aging high-rise and maintenance issues
- Tendering oversight and collusion
- Developers and strata management companies relationships
- How to keep maintenance costs low
- Collective action issues
- Anger towards strata/property managers
- Accessing walkable cities



Source: Altmann E & Gabriel M (forthcoming)

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Questions?