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# Chinese investment in Australian commercial property plummets 70 per cent

There is more capital flowing into Melbourne and Brisbane than Sydney, says Glen Dogan. **Supplied**

by Larry Schlesinger

Chinese investment in Australian commercial real estate has slumped more than 70 per cent this year in the wake of the new capital controls put in place by Beijing, new figures show.

For the first nine months of the year, Chinese companies have invested just $1.83 billion in offices, malls, sheds, hotels and development projects compared with a whopping $7.1 billion invested in 2016 and $6.3 billion in 2016, according to Real Capital Analytics data.

Perpetual Corporate Trust head of sales and relationship management Glen Dogan said the Chinese government re-classifying foreign property development and hotels as restricted assets – rather than falling yields – was the "key driver for the pullback by Chinese investors into Australia".

"Chinese investors were the biggest purchasers of development assets in 2016, but this year there has been a massive drop in development site purchasers as those [Chinese] buyers have not been here," said Mr Dogan in a speech to the Atchison Consultants 11th Global Real Assets Forum in Melbourne this week.

## Cross-border real estate investment in Australia ($m)

| | 2015 | 2016 | 2017 YTD |
|---|---|---|---|
| China | 6334 | 7105 | 1833 |
| US | 3372 | 5216 | 1643 |
| Singapore | 5124 | 2994 | 4030 |
| Hong Kong | 1679 | 1211 | 543 |
| Japan | 16 | 1109 | 28 |
| France | 0 | 970 | 0 |
| South Korea | 452 | 748 | 584 |
| UK | 304 | 734 | 242 |
| Germany | 796 | 574 | 235 |
| Switzerland | 260 | 417 | 181 |

SOURCE: PERPETUAL

Not only have Chinese buyers disappeared, but some like the massive Dalian Wanda Group have been reducing their local real estate exposure, with the Chinese conglomerate selling a majority interest in two flagship Australian developments in August – having initially denied it was doing so after *The Australian Financial Review* broke the story.

Combined with a fall in cross-border investment from all the other major regions – apart from Singapore, which has lifted its REIT investment – 2017 looks set to be one of the weakest years for overseas investment in Australian commercial property since the GFC.

For the year to date, the value of deals has reached $9.33 billion compared with $21.08 billion in 2016, with a big slump in cross-border investment from US investors chasing higher yields a major contributing factor alongside the Chinese exodus.

Speaking at the same investor forum, JP Morgan Asset Management's Singapore-based portfolio manager Ben Aiken said the investment bank had seen a "definite slowdown in outbound Chinese capital" with the gap filled by "Singapore REITs and other jurisdictions".

Instead, he said Chinese investors were looking to deploy capital locally. "What we have noticed in China itself is that there has been a tremendous amount of liquidity in that market. We recently exited a development in Shanghai where there was very strong local capital demand," said Mr Aiken.

The RCA data also shows that Sydney has felt the brunt of the slowdown in cross-border investment, due mainly to office returns shrinking as values rise, with Melbourne emerging as the preferred city for foreign investors across all asset classes, albeit also off much lower volumes.

This year, Sydney has fallen to 28th among the top 30 real estate markets for global capital flows, down from eighth last year, with Melbourne dropping out of the top 30, having been ranked 15th in 2016.

"There are more capital flows now going into Melbourne and Brisbane than Sydney, with the rationale being the declining cap rates – 5.4 percent in Sydney for offices, compared with 5.9 per cent in Melbourne and 6.8 per cent in Brisbane," Mr Dogan said.