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Chinese Investors Are Avoiding Commercial Property

By Michael Mata | 13 Nov 2017 12:00 AM

Concern has been brewing over the last couple of months that the supply of Chinese investor capital flowing into global commercial real estate markets will eventually dry up, following Beijing's latest clampdown on Chinese investment in overseas property development.

In August, the State Council of the People's Republic of China issued the first set of rules on overseas investment by Chinese companies. The new list of "banned investments" includes defence technology and casinos, while overseas property development and hotels were classified as "restricted".

According to Petra Blazkova, senior director of APAC analytics at Real Capital Analytics (RCA), while stricter regulations and government scrutiny may reduce activity, Chinese appetite for overseas real estate investments is not likely to disappear completely.

“The demand by Chinese investors for overseas commercial real estate investments will not evaporate, however the new rules will influence capital’s behavior and direction,” she said. “Established Chinese investors will be able to maintain their global presence either directly via their existing offshore entities, or indirectly via balance sheets of foreign companies and investment platforms they partially own.”

Blazkova added that new Chinese investors can use alternative routes, with Hong Kong’s financial markets playing a key role, as “no specific regulations have addressed this trading route yet.”

Nevertheless, the impact of the latest regulatory restrictions is being felt in Australia, with Chinese investment in commercial real estate down more than 70% this year, according to the RCA.

For the first nine months of this year, Chinese companies have invested a mere $1.83bn in offices, sheds, malls, hotels, and other development projects.

Glen Dogan, head of sales and relationship management at Perpetual Limited, said the Chinese government’s re-classification of foreign property developments and hotels as restricted assets, rather than falling yields, was the “key driver for the pullback by Chinese investors into Australia.”

Speaking at the Atchison Consultants 11th Global Real Assets Forum in Melbourne, Dogan said Chinese investors were the biggest purchasers of development assets last year. “But this year there has been a massive drop in development site purchasers as those [Chinese] buyers have not been here,” he said.

Combined with the decline in cross-border investment from major regions (with the notable exception of Singapore), 2017 looks set to be one of the weakest years for overseas investment in Australian commercial property since the global financial crisis, according to Perpetual Limited.