Media Source: The Age
Date of Publication: 11th February 2011
Author: Simon Johanson

Asian buyers snap up local sites

Cash-up Asian developers are emerging as significant players in Melbourne's apartment market as local developers struggle with onerous banking requirements.

Mainland Chinese developers are behind nine landmark city purchases in the past 18 months, with Malaysian, Singaporean and Indian developers snapping up at least another four sites.

Asian investors are filling a construction gap on the city's apartment skyline created when Australia's big four banks tightened credit restrictions on local developments after the global financial crisis hit in 2008.

Big Asian property groups are not subject to the same financial constraints as local developers and are often able to invest larger amounts of capital in projects and source funding from overseas.

The roll-call of land sold to Asian interests in the past 18 months includes high-profile sites such as 4-10 Daly Street, South Yarra, which sold in December with approval for 350 apartments. Lyz Property Group, based in China's Jiangxi province, bought Daly Street from Melbourne's prominent Deague family for $28.5 million, along with the neighbouring historic Arlie Mansion, the former home of prime minister Stanley Bruce.

The buying surge is set to further intensify competition, with major property groups reporting continued interest from mainland Chinese and other Asian developers despite the high Australian dollar.

Colliers International residential site sales manager David Grima said that last year one Chinese buyer came with a mandate to spend $100 million on land for residential development.

''Over the past 12 to 18 months we have seen a huge increase in levels of interest from offshore purchasers, particularly from Chinese and Malaysian groups,'' Mr Grima said.

Colliers was also expecting strong interest this year.

Last year Melbourne businessman Solomon Lew sold land at 151-165 Franklin Street to Malaysian developer S P Setia BhD Group for $30.4 million. Mr Lew and his associates bought the property for $810,000 in 1982.

CB Richard Ellis associate director of city sales Mark Wizel said the company was close to sealing deals to sell another four large development sites to Chinese and Malaysian interests.

A fresh wave of mainland Chinese buyers had come from all over China, including Shanghai, Guangzhou, Wuhan, Nanchang, Beijing and Tianjin, Mr Wizel said.

While Singaporean and Malaysian developers tended to focus on the CBD, Chinese groups were willing to buy and develop around Melbourne, he said.

Chinese investors recently bought the controversial former Northcote Bowls site in Victoria Street for $6.8 million, he said. ''Mainland Chinese developers have experience that exceeds even our largest local private Australian developers, having delivered in their home countries projects that comprise on occasion between 2000 and 5000 apartments.''

Developer Richard Buxton, of the Buxton Group, said tight funding requirements were hampering some local developers even though their projects were viable.

''Blokes that have got building permits and planning permits for good-quality projects, they just can't get them up. They can't meet the requirements,'' Mr Buxton said.

Most Australian banks limited the number of apartments sold to foreigners in a development to between 10 and 20 per cent of all buyers to avoid exposure to settlement risk, Thomsons Lawyers property partner Eu Ming Lim said.

Before 2009 developers were restricted by the Foreign Investment Review Board to selling only 50 per cent of a project to offshore buyers. Those restrictions had since been lifted as long as the development had more than 100 apartments, Mr Lim said.

Sam Nathan, director of residential projects at property analyst Charter Keck Cramer, said Asian developers were after a stable environment.

''They're cashed up. They're buying sites with full capital or very limited exposure, and they're carrying that equity through the development cycle in a stronger position than the majority of local developers can,'' Mr Nathan said.

''Although Asian investment has occurred for a long period of time, it's only reached a critical mass in the CBD and central city region in the past 12 months and the market's still trying to come to grips with that systemic shift.''