RESIDENTIAL RESEARCH

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CHINESE DEVELOPERS IN AUSTRALIA

MARKET INSIGHT 2019

Key Facts

Chinese developers and investors purchased $1.3 billion worth of Australian residential development sites in 2018; equivalent to **31% of total site sales.**

In 2018, of all Australian development sites purchased by Chinese developers and investors, **41% were suited to low density**, up from 29% in 2017.

Almost **11% of all new apartments built in 2018 were by Chinese developers**, with this share projected to rise to 22% in 2021 for the major Australian cities.

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Chinese New Year will meet the 'Yellow Earth Pig', the twelfth and last of the Chinese Zodiac. Symbolising wealth and prosperity, business decisions in 2019 are likely to be more realistic, taken in stride, but with precision. Will this reflect the actions of Chinese developers in Australia?

Over the past five years, Chinese developers have significantly ramped up their presence building landmark residential towers around the world, including along the skyline of the Australian east coast. In 2018, Chinese developers and investors purchased $1.3 billion worth of Australian residential sites; equivalent to 31% of total sites sold. This was down substantially from the $2.02 billion recorded a year earlier, although the share of total sales fell only slightly from 33%; reflecting a wider, slower-paced market.

There is no denying Chinese developers have met with challenges throughout this time. From the Chinese government attempting to moderate capital outflow, to locally, the impact when major domestic banks restricted lending to offshore borrowers. This limited Chinese developers' ability to rely on deep databases of clients familiar with projects in their home towns. In addition, current challenges being faced by all developers include the local changes to Foreign Investment Review Board (FIRB) rules and the Australian Prudential Regulation Authority (APRA) encouraging stricter lending practices for investors cooling off-the-plan presales—not to mention the introduction of state-based surcharges.

The majority of Chinese developers which have entered the Australian landscape are settling in for the long haul, now diversifying their portfolios to adapt to local market trends. Over the past year, the likes of Zone Q, China Poly Group, Yuhu Group and Aqualand have increased their exposure to office assets and this trend is likely to continue in 2019. Also they are shifting weight towards lower-density residential with 41% of sites purchased in 2018, up from 29% in 2017. Overall however with a 58% share, the more accustomed, higher-density sites still dominated; this past year moving away from medium-density sites.

Chinese developers and investors have purchased more than 25% of the residential development sites that have transacted each year over the past five years. Factoring in lead times for planning and marketing the project, naturally the number of Australian apartments built by Chinese developers only started to ramp up in 2016, and were located in Sydney, as shown in Figure 1. In saying this, reflecting on the past five years, Chinese-developed projects have tended to move hastily into construction mode once development approval is granted; in many cases citing a lower reliance on funding (when compared to a local developer).

Almost 11% of all new apartments, or 5,160 apartments, were built by Chinese developers in Sydney, Melbourne and Brisbane in 2018. Still concentrated on the major east coast cities, this share is projected to rise to 15% in 2019 for those 5,440 apartments currently under construction, then increase to 22% in 2021. This includes those projects which have already commenced, and those with development approval which are currently being marketed (7,360 apartments). With current headwinds heading into 2019, the likelihood of all projects proposed by Chinese developers going ahead in this timeframe is diminishing, except those with an exceptional product.

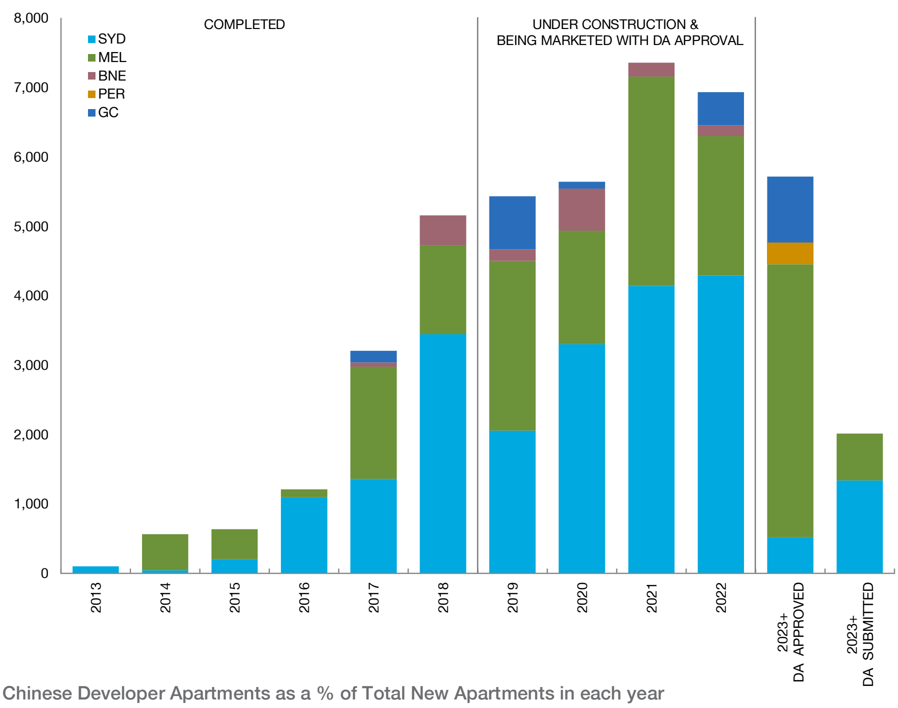
Projects submitted for development approval and those already with approval, but not yet having started a marketing campaign, tend to taper-off substantially with less than 6% of total projects in the pipeline each year beyond 2023.

Going forward, developers—both Chinese and local—must hold realistic expectations following a residential market in correction mode after a lengthy period of significant growth. It will be imperative proper time is allocated to strengthen their position in the market for when the time to proceed arrives.

FIGURE 1

Chinese Developer Apartment Pipeline in Major Australian Cities

Number of Apartments, in Higher Density projects with 4+ storeys and 25+ apartments



Chinese Developer Apartments as a % of Total New Apartments in each year

Source: Knight Frank Research

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