RESIDENTIAL RESEARCH

CHINESE DEVELOPERS IN AUSTRALIA

MARKET INSIGHT 2018

Key Facts

Chinese developers and investors purchased $2.02 billion worth of Australian residential development sites in 2017; equivalent to **one-third of total site sales.**

Residential development sites purchased by Chinese developers and investors, had an **average area of 21,785 sq m** in 2017.

In 2017, of all Australian development sites purchased by Chinese developers and investors, **29% were suited to low density**, up from 2% in 2013.

MICHELLE CIESIELSKI
Knight Frank Residential Research

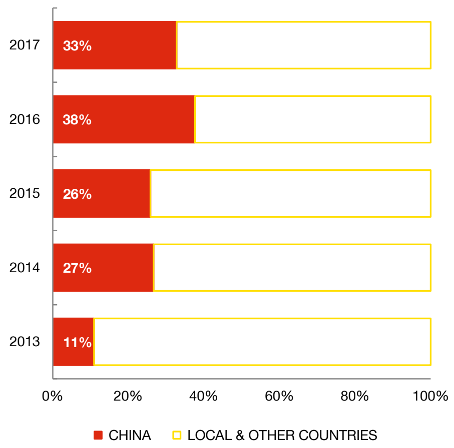
Follow Michelle at @MCiesielski_AU

Celebrated by millions, the Chinese New Year will enter the 'Year of the Dog' in 2018. Known to be a progressive year, with positive changes and new developments, the dog symbolises good luck. Will this new year bring further success for Chinese developers and investors in Australia?

Chinese developers have continued to dominate foreign investment in residential development sites across Australia. Many are now well-established in the local market. Almost one-third of total residential site sales were sold to Chinese developers and investors throughout 2017, equivalent to $2.02 billion in transactions. As shown in Figure 1, this share of sales to Chinese buyers has tripled since 2013, but decreased from the 38% recorded in 2016.

Sustained developer interest in the Australian market has come in spite of government efforts in both Australia and China to tighten credit conditions as they relate to residential investment and development. In Australia, the Australian Prudential Regulatory Authority (APRA) has encouraged local financial institutions to impose stricter controls, while in China the government has attempted to moderate capital outflow with China's Central Bank imposing new rules for companies which make yuan-denominated loans to overseas entities, including establishing a register

FIGURE 1
Australian Residential Development Sites Purchased by Chinese Developers and Investors
% portion of disclosed total sales, by value



Residential development site sales suitable for low, medium and high density; threshold of $2M+ for all states, with the exception of NSW & Victoria being $5M+.

Source: Knight Frank Research

and placing a cap on loans with their foreign exchange regulator, the State Administration of Foreign Exchange (SAFE). However, in mid-2017, this was relaxed somewhat resulting in a boost to market confidence.

Along the Eastern States in 2017, Victoria recorded the sale of 38.7% of residential sites to Chinese buyers, the highest share of all states. This follows sustained growth in population, strong residential capital gains and a relatively low total vacancy. Many developers consider that Melbourne offers better relative value when compared to Sydney. New South Wales and Queensland followed with Chinese buyers comprising 35.6% and 7.4% of their state's total volume, respectively.

As Chinese developers gain experience in higher density projects across the major capital cities, there has been diversification in many of their portfolios to include medium and lower density sites. These lower density projects have also become more popular with local developers, as this type of project also tends to have less hurdles with the imposed tighter lending restrictions and overall lowers the delivery risk to the developer. As a result, residential development sites being purchased by Chinese buyers have increased in average size to accommodate this type of horizontal development. As shown in Figure 2, in 2017, the average site purchased was 21,785 sq m, increasing three-fold since 2013.

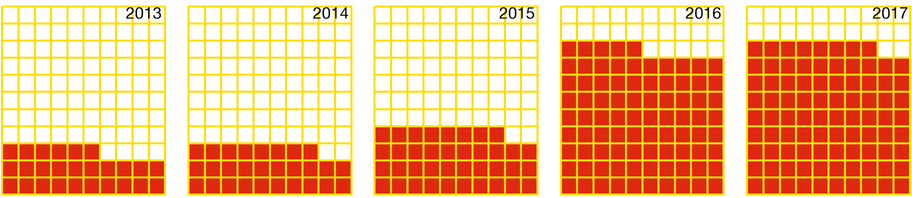
Across all Australian development sites purchased by Chinese developers and investors in 2017, 29% were most suited to low density projects, followed by 17.1% for medium density (some sites are still subject to planning approval). Both of these groups have increased significantly from last year with only 20.1% suitable for low density, and 8.6% for medium density projects. Looking back to 2013 and 2014, as shown in Figure 3, sites suitable for higher density projects dominated transactions for Chinese buyers, both having a share greater than 98%, notably without any sites sold suitable for medium density projects.

Sydney and Melbourne continue to be favoured by Chinese investors, although modest enquiry is likely to return in 2018 when compared to past years. It's expected lengthier due diligence will be carried out for those now established in the local market, and for new developers coming into Australia, transactions will be reliant on the ability to transfer their funds.

FIGURE 2

Average Site Area, Purchased by Chinese Developers and Investors

Each red square represents 250 sq m, Australian Residential Development Sites



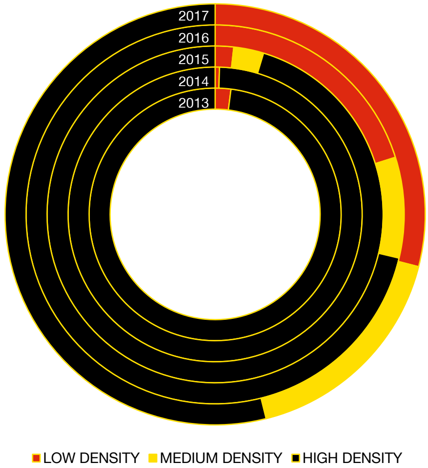
Each square is rounded up to nearest 250 sq m. Residential development site sales suitable for low, medium and high density; threshold of $2M+ for all states, with the exception of NSW & Victoria being $5M+.

Source: Knight Frank Research

FIGURE 3

Residential Development Site Sales by Potential Density, Purchased by Chinese Developers and Investors

Total Australian volume, by value



Some sites are subject to planning approval. Residential development site sales threshold of $2M+ for all states, with the exception of NSW & Victoria being $5M+.

Source: Knight Frank Research

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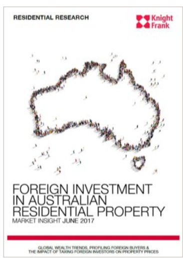

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RESEARCH & CONSULTING

Michelle Ciesielski
Director, Residential
+61 2 9036 6659
Michelle.Ciesielski@au.knightfrank.com

Ben Burston
Group Director, Research & Consulting
+61 2 9036 6756
Ben.Burston@au.knightfrank.com

RESIDENTIAL SITE SALES

Paul Henley
Head of Commercial Sales, Australia
+61 3 9604 4760
Paul.Henley@au.knightfrank.com

Dominic Ong
Head of Asian Markets
+61 2 9036 6747
Dominic.Ong@au.knightfrank.com