

# Forget the farm, we're selling the city

**Rick Feneley**

Property buyers' agent Patrick Bright reckons he could make a killing if he was willing to engage with the rush of foreign investors seeking a slice of Sydney's housing market. "I could quadruple my business overnight but it doesn't gel with my values," Mr Bright says. "I don't believe we should sell the 'farm'."

Australia isn't selling the farm nearly as much as it is selling its cities. Foreign investors – a rapidly growing proportion of them from China – now buy almost one in six newly built homes sold

in NSW, according to the latest NAB quarterly property index. Their slice of the state's new housing pie, whether units or houses, has surged to 16 per cent – from 11 per cent in the bank's June quarter survey, and only 2.5 per cent in early 2011.

Real estate has overtaken mineral exploration and development as the biggest category for foreign investment approvals. In 2011-12, it accounted for 35 per cent, or \$59.1 billion, of which almost \$20 billion was for residential property. Agriculture, fishing and forestry accounted for just 2 per cent.



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Mr Bright, the founder of EPS Property Search and a real estate author, says: "Too many of these foreign buyers are paying over the odds. Even if I wanted this business, I couldn't put my hand on my heart and tell them they were paying a fair price."

But he says he is most concerned about the long-term social consequences: that foreign investors are squeezing out

first home buyers and other Australian residents; that Gen X and Gen Y will be condemned as the generation of renters.

NAB chief economist Alan Oster says: "If you've got 15 per cent of new stock being taken by foreigners, that's a large stock. Without them, prices wouldn't be as strong."

After years of flat or falling returns, property prices are climbing again. In Sydney they are expected to rise 9 to 12 per cent this year. Chinese investors, meanwhile, are driven offshore as they face tough government

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restrictions at home, such as a limit of one investment unit in Beijing, aimed at reducing the heat on China's housing market.

Are they adding fuel instead to Australia's market, and is there any risk of a property bubble?

"There is no evidence of a bubble," says David Milton, the managing director of residential property at CBRE. He says foreign Chinese investors make up about 10 to 15 per cent of his business. He rejects the assertion they are paying too much.

"People aren't silly," says the managing director of residential property at Colliers International, Peter Chittenden. "They do the due diligence."

Until December 2008, developers were limited to selling 50 per cent of a project to foreign investors. The Rudd government removed that limit as part of its stimulus measures to address the global financial crisis.

While this might have sent a message to foreign investors that Australia was open for business, it has had "zero impact" in reality, say Mr Milton and Mr Chittenden. Why? Because the big banks, worried about bad debts, impose their own limit on developers to sell only 15 to 20 per cent to foreign buyers.

Harry Triguboff's cashed-up Meriton Group does not need the banks, so hypothetically it could sell 100 per cent to foreign Chinese investors. But they have consistently accounted for only 15 per cent of its sales over the past three years, says national sales director James Sialepis.

While Meriton has long said Chinese buyers account for about 70 per cent of its sales, these are overwhelmingly Chinese living in Australia.

Mr Sialepis dismisses talk of a bubble, as does Mr Oster, who argues that Sydney and Melbourne are merely recovering after years of no growth, while Queensland and Western Australia "are going backwards".

On the measure of people's capacity to borrow, he says, Australians are better off now than they have been for decades.

Figures cited by the Housing Industry Association would suggest Sydney has a lot of catching up to do. In the past decade, its home prices have risen by 31 per cent – against 79 per cent for Bris-



Over the odds: Patrick Bright. Photo: Ben Rushton

bane, 80 per cent for Melbourne and 143 per cent for Perth.

But the prominent Sydney agent John McGrath believes some of the heat will come out of Sydney's high rate of growth, which he has called unsustainable. Mr McGrath told Bloomberg Television last month: "I haven't seen a trend like this in 30 years, in terms of a brand new demographic group entering the Australian market with so much impact as I've seen in the last 12 months."

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