

Offshore developers make a play

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Asian developers dominate the Australian apartment market now that local companies are struggling to compete in the face of rigorous financing requirements and a decline in investment confidence.

Developers from Singapore, Malaysia, Hong Kong and Mainland China are behind some of the largest residential apartment projects in Australia, with a total end value of more than \$7 billion.

Frasers Property Australia, the subsidiary of a Singapore listed giant, has entered a joint-venture partnership with Japanese home builder Sekisui House Australia in one of Sydney's largest apartment projects, Central Park.

On the Gold Coast, a subsidiary of South Korea's Hyundai Motor Group, Amco, and China's Ridong Group, are launching projects worth a combined \$1.5 billion.

Australia's largest developers including Mirvac and Lend Lease, along with private operators Central Equity and Harry Triguboff's Meriton, now represent a much smaller portion of the market

Mid-tier developers have largely withdrawn and many are calling for Australian lenders to lift their restrictions on the number of apartments that can be sold to foreign buyers off the plan.

Australia's big four banks will only fund an apartment project when less than a quarter of the apartments sell to offshore buyers.

Developers from south-east Asia face no such restrictions and sell and finance their projects entirely offshore.

"They have got a competitive advantage," said Melbourne-based apartment developer Mider's managing director, Anton Wilson.

Mider could sell all of its projects to Singaporean investors "in a heartbeat, but the big four banks are saying that only 20 per cent to 25 per cent can be sold overseas", Mr Wilson said. "There's a little bit of scepticism, I think – will they [foreign developers] deliver what they're promising to deliver or is it all a bit of hot air?"

Australian lenders impose tough conditions on local developers, including that pre-sales have to cover 120 per cent of the debt and that developers make a 30 per cent equity contribution to the project.

Westpac Banking Corp managing director property, Mark John, said the lending requirements were here to stay and that the bank was not in the process of increasing its loan book for residential development projects.

Many Australian developers are frustrated by the increasing dominance of offshore players, particularly at a time when there is a critical housing shortage.

The number of apartments and townhouses approved for development in Australia fell by about 20 per cent in the year to June, data from the Australian Bureau of Statistics reveals.

Savills city sales head Clinton Baxter said the shortage was pushing up inner-city rents. He predicts that interest rates will fall and house prices will rise, enabling cashed-up developers from Malaysia, Singapore and Mainland China to swoop on development sites and profit from their capacity to finance residential projects.

"We are dealing with numerous Asian-based residential developers – both corporate and private enterprises – seeking to secure prime inner-city sites for residential development," Mr Baxter said.

"With the Australian dollar falling recently, we expect the flood of offshore money to continue to flow into Melbourne residential projects."

Strong education links have placed Melbourne at the epicentre of the surge, led by the Hong Kong-based Far East Consortium's \$1 billion Upper West Side project.

Malaysia's largest developer, SP Setia, is also active in the city, as are a number of private Chinese individuals and Singaporean developer Chip Eng Seng, which also has a project in Perth.



The Central Park tower with a heliostat to reflect light back into the apartments

SP Setia chief executive officer Liew Kee Sin said the developer was expanding into Melbourne to capitalise on the housing shortage in that city.

The company was about to start building its first Australian project and had already sold most of the apartments to Malaysian investors, he said.

"We are concerned about competition and that's the reason why our first project must be done very well [so] that we can command a stable following."

The Australian Financial Review

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