

Chinese big investors to the world

HK and mainland buyers are among the biggest property players in capital cities

Peggy Sito and Richard Warren in London
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Mainland and Hong Kong investors have become a major force in the global property market. They have already emerged as the biggest group of buyers in many places, and their share of the market is expected to grow even further.

Favoured investment destinations of Chinese buyers include university towns and cities where their children study, especially in Britain, the United States, Canada and Australia. The combined mainland and Hong Kong student population in Britain has reached 60,000.

Patrick O'Neill, chief executive of the US property developer The O'Neill Group, said the Chinese share of international demand for homes in the US would double to 16 per cent this year. In Vancouver and London, he said, they were already the biggest source of overseas demand.

"Anecdotally, our associates in Vancouver are reporting that Hong Kong and mainland investors comprise over half of the open house traffic," O'Neill said. Figures from estate agency Knight Frank show that 11 per cent of international property investors in prime central London's new-homes market are Chinese, who are also the largest overseas group. One-third of buyers of new homes in the Canary Wharf financial district come from the mainland and Hong Kong, the agency reports.

Jennet Siebrits, head of residential research at CB Richard Ellis, said Chinese buyers were poised to overtake Russians as the most active international buyers in the prime central London housing market. "We would expect the favourable exchange rate to lead to an imminent rise in the number of Chinese buyers investing in prime central London property," Siebrits said.

Chinese investors are most active in the off-plan, or pre-construction, markets across the world from Dubai to Sao Paulo. Other hot destinations include France, where they are buying second-hand apartments in Paris and holiday homes on the French Riviera as well as new homes, reports estate agency HomeHunts.

Homebuying is tracking other economic activities. In Bordeaux, for example, the number of vineyard investors from the mainland and Hong Kong has been growing, according to Joel Palous, proprietor of AIM Vineyards consultancy.

Chinese buyers are said to target homes across the price spectrum. "The price points of mainland and Hong Kong investments begin from the low-end properties starting around

HK\$800,000," O'Neill said. At the top end of the market, agents recount helping mainland business people purchase £15 million (HK\$180 million) houses in London. O'Neill said Chinese investors were taking advantage of the slump in property prices overseas to buy into these markets for capital gains in future. "In some of the overbuilt markets in Southeast Asia and US cities like Miami and Las Vegas, homes are going at a discount of up to 70 per cent," O'Neill said.

"Real estate is cyclical, and even the most conservative economists project returning to and eventually surpassing the 2006 prices in the next upswing in about four to six years."

Gary Zhang, a senior manager in a Beijing-based energy company, has been looking for an apartment below US\$1.5 million in Manhattan. Among the main reasons for his interest are an appreciating yuan and a drop in New York property prices.

"Prices in Shanghai, Beijing and Hong Kong all are too high. New York City is a better place to invest," Zhang said, adding that prices in Manhattan have picked up a bit in the first half but are still lower than their peak levels.

"I may work in New York City in the next couple of years. I will move in if I do go. If not, it can just be an investment," Zhang said.

Currency fluctuations in some countries has also made property less expensive for Chinese investors. The pound has depreciated 20 per cent against the Hong Kong dollar and 30 per cent against the yuan over the past three years, according to Reuters, while the US dollar has depreciated 10 per cent against the yuan.

The mainland's rapid economic growth means it now has 343,000 high net worth individuals, or people with more than US\$1 million in investable assets, according to wealth management company Scorpio Partnership. Hong Kong has 72,000 high net worth individuals. Many such people buy property in Canada, Britain and the US because they are also attracted to their visa programmes, O'Neill said.

Wealthy foreigners can gain permanent residency in Britain by investing £1 million over five years. In Quebec, Canada, those who have net assets of C\$800,000 (HK\$5.94 million) and invest C\$400,000 can get permanent residency. In the US, the requirement is an investment of US\$1 million in a business that employs 10 people.

Matthew Montagu-Pollock, publisher of the website Global Property Guide, said mainland investment in overseas property was on the threshold of a boom.

"What triggers any national buying spree is of course economic growth, large increases in personal wealth and large increases in the value of the currency. The mainland Chinese have experienced the first two," he said.

"Many of them have good reason to want to keep some property outside the mainland for the time-honoured reason of diversification or risk-avoidance. I would expect the US, Canada, Hong Kong, Singapore, Australia and the UK to continue to top the list. Mainlanders' interest in overseas property seems likely to just keep growing."

Ed Lewis, director of London new developments at Savills estate agency, said 10 per

cent of his company's sales went to mainland and Hong Kong buyers. He said he expected this proportion to rise next year when the number of British buyers are likely to decline further.

According to website Smart New Homes, the number of new homes for sale in Britain is at its lowest since November 2006. A lack of mortgage financing has deterred many Britons from buying, the website says.

Ironically, while Hong Kong investors benefit from affordable buying opportunities overseas, they are finding competition from mainland investors increasingly tough at home. A third of Hong Kong's luxury flats were sold to mainland buyers in the first six months of this year, prompting lawmakers to debate curbs on mainland investment.

Two ideas being discussed are raising the investment level in the Capital Investment Entrant Scheme to HK\$10 million from HK\$6.5 million, and banning outside investment in small-to-medium-sized flats. If enacted, they could restrict the number of mainlanders using Hong Kong as a springboard into overseas property.