

# Distressed assets and weak currency present good value Asian buyers see bargains in Australia's commercial sector



With low returns from bank deposits, many affluent Asians from Singapore, Hong Kong, Malaysia and South Korea are looking to buy homes in places like Australia for investment. Photo: Bloomberg

**Fulton Mak**

Australia's commercial real estate sector has re-emerged as a key investment target for Asian buyers, says property consultant CB Richard Ellis.

Leading the Asian drive back into the Australian market were institutional and private investors mainly from Hong Kong, Singapore, Malaysia and South Korea, said Neil Brookes, CBRE's Sydney-based director of international investment.

CBRE data shows that in the first two months of the year, major transactions and development deals totalling more than A\$300 million (HK\$1.48 billion) had been negotiated with Asian buyers who were seeking to capitalise on cheaper prices, the weaker Australian dollar and low interest rates as well as a large number of distressed properties on the market.

"Australia has the highest ratio of distressed properties in Asia [at 6 per cent] after Japan," Mr Brookes said.

One Australian dollar bought HK\$7.50 in the middle of last year but at present it buys only about HK\$4.90.

The aussie has also dropped 30 per cent in value against the Singapore dollar and 25 per cent against the Malaysian ringgit since its peak last year.

Adding to the attractions of investing in Australian office projects

were yields in the commercial sector of 7 to 10 per cent per year, whereas residential properties yielded much lower at 3.5 to 4 per cent, Mr Brookes said.

He said the high yields were partly the result of cash-strapped listed property trusts offloading their assets at distressed prices to raise capital.

About 75 per cent of investment-grade commercial properties in Australia are owned by listed property trusts, many of which have seen their unit prices stumping as much as 60 per cent from their peaks, prompting them to sell assets even though these have fallen to such low values in order to solve their urgent capital needs.

"Obviously, mortgage numbers

are down but that doesn't necessarily reflect the fact that demand in the market is declining. It just reflects the tightening of credit criteria," said Neil Jensen, the director for business development at Lloyds TSB Hong Kong.

Meanwhile, investment in overseas residential projects continues for some affluent buyers who are looking to put their money in property assets to make up for the low returns they are earning on bank deposits.

Lloyds TSB provides international mortgage services to people buying overseas properties in 11 jurisdictions for investment purposes.

The company also provides mortgages to buy properties in Hong Kong

and Singapore for owner-occupation.

Mr Jensen cited as example the strength of the Hong Kong dollar against the British pound and the significant corrections in home prices as factors that were making properties in Britain more attractive for Hong Kong buyers.

Investors with longer-term views were now buying in the market, probably because they believed the opportunities would dwindle when the market hit bottom, he said.

The Hong Kong dollar has appreciated 30 per cent against the British pound from the trough in the middle of last year, while home prices in Britain have declined 25 to 30 per cent

from last year, which means a buyer can now purchase a unit at half the price a year ago.

Tina Ting, the head of British residential property at Savills Hong Kong, agreed that currency changes and significant price corrections had made the British market more attractive. "Inquiries about UK properties have increased recently, but most of them are yet to materialise because [potential buyers] expect home prices to drop further," she said.

She advised prospective buyers to wait a while before jumping in, as she predicted that the average home price in Britain would drop a further 8 to 12 per cent before stabilising at the end of the year. But she was positive about the British market in the long term based on its irreplaceable international financial status.

However, Richard Tong Kwaming, a veteran local investor with more than 30 years of investing experience, said overseas property investments should be made with caution.

"In an overseas market such as Australia, it is easy to buy such properties but you will find it difficult to resell them. Even finding a tenant is not as easy as in Hong Kong," he said.

Markets in international cities such as New York and London offered high liquidity, but high tax rates and the lack of familiarity with the market were a challenge to novice investors, he said.

## New Zealand house prices drop most in four years

**Bloomberg** in Wellington

New Zealand construction work has contracted for a fourth consecutive quarter and house prices fell the most in at least four years as a prolonged recession and rising unemployment stall the property market.

Construction adjusted for inflation fell 6.5 per cent from the third quarter, Statistics New Zealand said.

House prices dropped 8.9 per cent last month from a year earlier.

Quotable Value New Zealand, the government valuation agency, said.

House prices are falling and building approvals have dropped to a record as a recession and job losses keep consumers out of the property market.

The shrinking economy will prompt Reserve Bank governor Alan Bollard to cut the benchmark interest rate at least 50 basis points this week, according to economists.

"This is pointing to a large fall in

fourth-quarter gross domestic product," said Khoon Goh, a senior economist at ANZ National Bank. "Everything is pretty much tied to the job market. Unless you are feeling confident about your job prospects, you aren't going to build a house."

Residential building declined 13 per cent, the biggest drop in eight years, the statistics agency said. Non-residential work gained 1.6 per cent after rising 5.2 per cent in the third quarter.