

WHY (IS) OUR PROPERTY (IS) SO CHEAP



This dilapidated 50m² flat in Beijing

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This palatial riverfront home in Brisbane

...at a similar distance from the CBD

Though much of it has been catch-up from the near zero capital growth Sydney and Melbourne experienced over most of the first decade of the new millennium, because property prices are such a political football much is now being made of their recent resurgence in the two political powerhouse capitals and very little about how prices in other capitals have hardly moved over the same time (or how far they've fallen in Perth).

Little is also being said about how national average house prices are as affordable as they've been since before the 2002-03 boom, and in the non powerhouse capitals, as affordable as they've been for decades.

To get some simple historical perspective, in the last decade the average Sydney suburban house price has gone from \$550,000 > \$900,000, Melbourne from \$480,000 > \$750,000, and Brisbane \$450,000 > \$500,000.

Reminiscent of the Japanese in the 1980's, a great deal is presently being made not unjustifiably of the mainland Chinese push into our property markets and the inflationary effect that has had on them, particularly Sydney and Melbourne's, but latterly and increasingly Brisbane's.

So why do the Chinese want to come here?

Beyond our property being comparatively cheap for them (more on that later) and our geographical closeness (particularly Brisbane) and similar time zone, in general order of merit here's how we score with what matters most to most Chinese in choosing where to invest or migrate:

1. Education – The Chinese prize education very highly (more than most Westerners tend to) because they see it as the surest way to achieve the levels of economic and social well-being enjoyed by the Western World

Beyond the obvious advantages of English language immersion that schooling here offers, the Chinese generally rate our educational facilities highly, in Brisbane's case particularly The University of Queensland which has been steadily climbing up the international rankings to today where US News 2017 rates it equal 3rd in the country alongside ANU with only UniMelb and Sydney Uni above it

2. Air Quality – Whilst it may be hard for us in this clean, green nation to grasp, much of China and indeed all of the more populated areas suffer from poor to poisonous air quality much of the time which kills untold millions every year and which greatly threatens future generations

Australia rates as one of (if not the) least polluted (and populated) nations on the planet

...PARTICULARLY FOR THE CHINESE

3. Financial Security – China has the largest middle class in the world and a fast growing upper class, many of whom harbour concerns that the state can at any time garnish some or all of their hard won wealth. Moving money abroad is seen as an effective way of defraying all or at least minimising some of that risk

The Chinese harbour minimal concerns around financial security anywhere in Australia

4. Food Safety – Again as foreign as it may seem to us, food safety in China is a big deal. We get to hear from hear time to time some of their more serious food safety incidences such as the baby milk formula debacle but hear much less of the day to day tribulations Chinese face buying all manner of foodstuffs.

The Chinese consider the quality of our food to be generally safe and of a high standard

5. Welfare – China's welfare system has not kept pace with its economic development

The Chinese see Western welfare systems as infinitely more attractive than their own

6. Political Freedom – China still has very limited political freedom compared to the West

The Chinese cannot fully grasp just how much political freedom we have in the West

7. Taxation – The Chinese are generally uncomfortable with their preferential taxation system but particularly because it favours foreigners including Chinese who have taken foreign citizenship over Chinese (China does not allow dual citizenship) but who still live and work in China, both of whom pay less tax than Chinese with Chinese citizenship.

Chinese have issue with our Taxation Law also but for different reasons. They see it as punitive, internationally non-competitive, and a disincentive to wanting to succeed

8. Career – Chinese have a strong will to succeed and often feel that this will is stifled in China

The Chinese generally believe that in Australia (the US and Canada) everything's possible for everyone

9. Social Equality – China still suffers from deeply entrenched social inequality and many Chinese see migration as the only way around it

Despite the undue attention the media gives the subject (because it is so very politically sensitive and therefore newsworthy), the Chinese view secular Australia as having a very high level of social equality

10. Medical Treatment – Another area that has not kept pace with China's rapid development is the quality and availability of first world medical care. This is of particular concern to Chinese given their high propensity for getting sick just breathing the air or eating locally produced food

The Chinese see our health care as world class, and despite their pride in how far their country has come in such a short time, still somewhat superior to their own

Why our property is so incredibly cheap for the Chinese

China, particularly its big three capitals of Beijing, Shanghai and Shenzhen have enjoyed three decades of near continuous and at times spectacular growth (indeed none more spectacular than in the last 18 months).

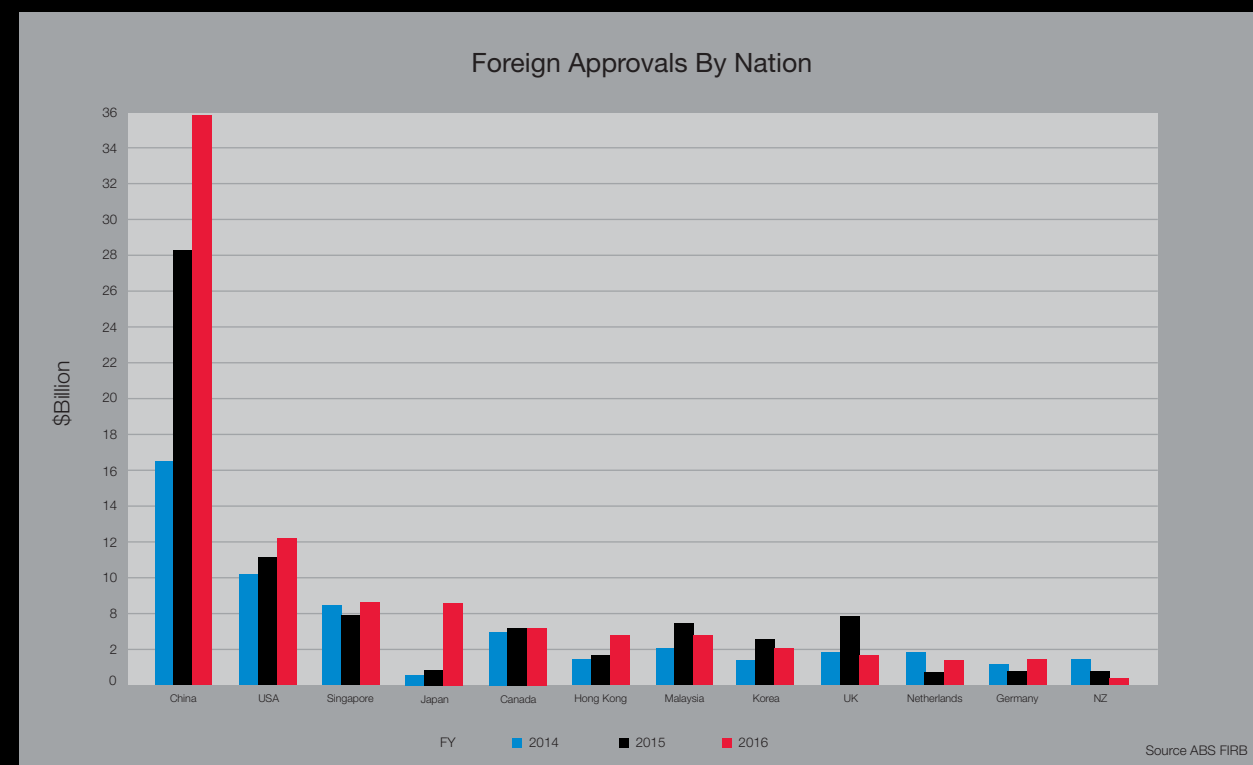
Anyone who called the end to China's property boom over that time (and many did, including a swathe of quite senior economists) has invariably ended up with egg on their face (and or a lot less money in the bank).

This has been particularly so recently where despite even more stringent lending and other government imposed property acquisition restrictions, prices in Beijing and Shanghai have risen by a staggering 60%, and

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(possibly) thanks to a politically induced capital flight, in Hong Kong's mainland neighbour Shenzhen, a full 100%. Yes double in 1 year. That makes Sydney's 12% seem absolutely pedestrian.

The repeat booms in property prices in China have given the Chinese incredible spending power and encouraged them to get active in our market. To see just how active, take a look at the following graphs from ABS | FIRB records.



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Here is an recent real life example of why our property is so cheap for the Chinese.

One of our mainland Chinese clients who we met up with in Beijing a couple of years ago related at the time how she had just sold her totally un-renovated 50 sqm (not a misprint) 40 year old walk up apartment that she had bought 10 years previous for AU\$150,000 (pictured) on the outskirts of the CBD (6 km North of Tiananmen Square) for \$800,000 (again AU\$).

At the time she was very happy..... and why not? She made a staggering 550% return on her investment in a decade, 55% a year for every year she'd owned it.

Fast forward 2 years and she is very unhappy because the very same apartment in the same condition has just resold for \$1,800,000, 2.25 times (225%) higher again in just 2 years meaning had she kept it for that little extra time her capital gain would have been \$1,650,000 over 12 years (125% a year) instead of \$650,000 over 10.

There are stories like that all over China, particularly in the bigger cities. That has created an incredible dilemma for them.

For what they can readily sell their minute, old, cramped, basic apartment for in any number of polluted cities in China they can buy a luxury home on or off the water (which they covet) here (e.g. the one pictured alongside the Beijing apartment recently sold on the river in Brisbane in the high \$1millions).

Despite just how alluring that prospect is, many still hold off selling, fearing that if they sell, what they sell will be worth so much more in the future than any property they acquire here.

This may or may not prove to be the future reality. The Chinese are very aware of what happened in Japan where runaway prices that peaked in the late 1980's are still not yet back there but many rightly or wrongly contend that China is not Japan and therefore new rules apply.

So essentially most of the investment we are seeing here from mainland China is either of two; 1. Raw investment or convenience based, typically near city or near university (for their children to use whilst studying) production line investment apartments; or the purchase of established homes, most of which do not qualify for FIRB (Foreign Investment Review Board) being purchased as principal places of residence by those Chinese who have made the decision to fully or largely cut ties to the homeland.

For the highly homogeneous Chinese leaving for good can be a gut-wrenching decision. Be that as it may, that is no different to post war Europe of the 1950's and 60's and in more recent times for the South Africans and South Americans.

So just how many Chinese may come...? Well, that we don't yet know...

