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Global elite buys trophy apartments

What used to be seen as risky and illiquid is today considered a primary asset class, reports *Anna Nicolaou*

Strolling along the southern border of New York's Central Park reveals a fair amount about the state of global residential property.

Along West 59th Street, which overlooks the park, are several residential towers where New York's wealthy financiers enjoy fine views.

A three minute walk south, on West 57th Street, stretches a row of skinny glass skyscrapers, many bought as second or third homes by foreign investors and vacant for large parts of the year.

The 59th Street buildings are for rich New Yorkers, while 57th Street — dubbed Billionaires' Row — is for foreigners, according to real estate industry executives.

"It's two blocks away, but it's also light years away," says Andy Gerringer of Marketing Directors, which specialises in luxury property developments in New York City.

The story of ultra-rich Chinese and Russians snatching up condos in western cities is one we have heard before. But in the past few years, the market's recovery from the depths of recession has been marked by a surge in cross-border investment, with large flows of capital from Asia, South America, and the Middle East pouring into big cities across the US and Europe.

In a world of record low interest rates and political uncertainty, funds have returned to fixed assets, with real estate a choice destination for the savings of the world's elite and a more mature asset class to institutional investors.

The rush of exotic capital into so-called gateway cities is driven by a basic need to invest large amounts safely. What was seen in 2006 as clunky and illiquid, riskier than stocks or bonds, is today a "primary asset class", says Stephen Shapiro of JLL's New York capital markets group.

Billionaires' Row: New York's West 57th Street is home to overseas buyers investing in luxury property — Giuseppe Masci/Alamy

"It's a whole new world. In 2007, when we sold office buildings, everyone said: 'I want a building that has AIG or Lehman in it.' Investors across the globe wanted that credit play," he says.

"But today they're saying: 'I'll take real estate because it's a hard asset.' And in a city such as New York, it's liquid and chances of capital appreciation are close to 100 per cent."

Interest rates, slashed during the financial crisis, have remained near zero across North America and Europe; this has led to a global hunt for yield that has favoured stocks and real estate.

"If you put money in the bank in Germany, you're getting negative interest. You can buy an apartment in Manhattan and get exponentially higher returns. It has caused all this money to flow into New York," says Mr Shapiro.

The recovery in property prices has been "very orderly", according to a research note written by Green Street advisers in January. "Real estate . . . has screened as 'cheap' relative to bonds ever since financial markets stabilised around early 2011."

And while the global financial crisis sent long-term investors running from residential property, volatility is now bringing them back — to perceived "haven cities".

Amid a vehement anti-corruption campaign from the opaque Chinese government, poor relations between Russia and the west, and political turmoil in Brazil, uncertainty has pushed money into trophy properties in big urban centres, which are generally shielded from the tides of the economy.

In the US, birthplace of the subprime mortgage crisis and subsequent financial crash, home sales to foreign buyers jumped from $68bn in 2013 to $104bn in 2015, of which $28.6bn-worth went to the Chinese, according to the National Association of Realtors.

"We've seen waves of foreign buyers in the past three years," says Elizabeth Stribling, president of luxury residential property company Stribling & Associates. "Even with market turbulence right now . . . it's even more of a reason to diversify portfolios."

Thanks to this foreign demand, residential property prices came back "fast and quick", says Mr Gerringer.

China's easing of its capital flow restrictions has changed the game, says Mr Shapiro. Instability at home has also made wealthy Chinese look beyond their borders: almost half of high-net-worth Chinese were thinking about moving to a more developed country within the next five years, according to a Barclays survey in September 2014.

As prices in markets such as Hong Kong and Singapore hit new highs, Chinese house-hunters have looked further afield, to Sydney, Tokyo, Vancouver, London and New York.

"The flood tide of Chinese capital is poised to change skylines around the world . . . We expect . . . capital flows to continue at a rapid pace, likely marked by further blockbuster deals," wrote Cushman and Wakefield in a report in August.

The subsequent rise in residential prices across these cities has not been welcomed by all. In Australia and Canada, buyers are spooked by prospects of a housing bubble.

Foreign investment in Australia doubled from 2013 to 2014, with the Chinese surpassing Americans as the biggest buyers. The influx of capital has attracted the attention of watchdogs: in August, the government introduced stricter rules to keep an eye on foreign buying in response to public criticism of unchecked speculation from abroad.

In Canada, large sums of Asian capital have inflated home prices in Vancouver, Calgary and Toronto. The country is stuck between a frothy housing market and an economic recession. Last year, the Bank of Canada warned that prices were up to 30 per cent overvalued, raising the risk of a housing correction.

Investment in US multifamily units hit a record $127bn in the year to June, more than triple that of the year before and surpassing its 2006 peak of $100bn, according to CBRE Global Capital Markets, as "unrelenting" demand for apartments has rapidly absorbed new supply.

But as the Chinese buy more and more US homes, US appetite has been historically weak, with home ownership dropping to a 46-year low in August.

Many factors have pushed the domestic market towards renting rather than owning. America has a shortage of affordable homes, as rising land costs skew construction towards expensive developments rather than mid-tier properties. Traditional lenders have tightened borrowing, making it harder for people with average credit to get a mortgage and effectively shutting out swaths of potential buyers.

Inside

Wealthy go for residential risk and solace abroad

Investment options

Chinese buyers and others in the region are looking further afield, write *Kana Inagaki* and *Anna Nicolaou*

While some investors are buying houses in Tokyo to escape China's stock market turmoil, others think investing in Hong Kong apartments with their skyrocketing prices could be a quick way to increase their personal wealth.

Market dynamics for investment in Asian residential property — whether it be viewed as a status symbol or a haven against geopolitical risk — are as diverse as the region's global cities, be it Hong Kong, Singapore or Shanghai.

In line with global trends, residential property continues to be the preferred choice for individual investors in Asia, rather than offices and retail premises.

"Everybody, whether rich or poor, lives in houses and we all have a passion for the residential market. If you start getting into other types of property, it becomes more complex," says Nicholas Holt, head of research for Asia-Pacific at real estate consultancy Knight Frank.

Driving the rise in residential prices in cities such as Hong Kong are wealthy Chinese. These individuals are also increasingly extending their property investments outside Asia into US and European cities including San Francisco, London and New York.

In Singapore, top buyers are Malaysians and Indonesians who consider the city state to be a safe place for investing their wealth.

Hong Kong is already the most expensive city in the world with a typical prime resale apartment costing $4.5m. That compares with $3.1m in London, $2.3m in Singapore and $2.1m in New York. It is also 61 per cent more expensive per square foot than its nearest rival London, according to Savills, the real estate agent.

But escalating prices and limited supply are driving some money into other residential property destinations in Asia. Tokyo, for example, is recognised in China as a haven from economic and stock market turmoil.

A weaker yen and expectations of prices remaining robust in the run-up to the 2020 Tokyo Olympics have encouraged investors from Taiwan and Hong Kong to purchase condominiums in prime locations in the Japanese capital.

> 'The investment skill is in spotting the next up-and-coming fashionable areas'

In Japan, land prices nationwide have declined for most of the past two decades. Here, investors often count on stable yields from renting property. By contrast the buy-and-hold strategy aimed at achieving capital gains would work better in Hong Kong and Singapore, where property prices have risen. Buyers in Singapore and Hong Kong are also starting to look at Thailand, Malaysia, Cambodia and the Philippines, although their strategy is often short-term and aimed at reaping quick capital gains, says Mr Holt.

Island prize: Hong Kong is the world's priciest residential property market

"Both Hong Kong and Singapore are land-limited and some parts of the cities are looking fully valued," says Yolande Barnes, head of global research at Savills. "A lot of the investment skill is in spotting the next up-and-coming fashionable areas."

Many Asian buyers have also shifted their focus away from the continent as local political and economic uncertainty has encouraged a shift to investments abroad that are perceived as safer.

Elizabeth Stribling, who sells luxury residential developments in New York, explains: "Whenever there is an upheaval in the world, they want to come here. They buy apartments in New York as a second or third home when their children are five years old, as an investment.

"Then the kids live there while they go to university in the US. The kids grow up and marry. It's a family cycle."

Appetite for US homes among the world's wealthy, notably from China, Russia, and South America, has coincided with a recovery in the US housing market. US home sales to foreign buyers reached $104bn in the year ending March 2015, compared to $68bn in 2013.

Beneath the jaw-dropping transactions seen in the past year — including a record $100m Manhattan penthouse sold to an unidentified buyer — the pattern of the US recovery has been uneven.

While demand from abroad has helped push property prices in New York and Texas beyond their 2006 peak values, prices in Nevada and Florida are still 30 per cent below their peaks, according to data from CoreLogic.

While Chinese billionaires and New York financiers scoop up a third home in Manhattan, most Americans are renting rather than buying, driving demand for apartments.

So-called millennials have moved out of their parents' homes and into apartments in urban centres, which is partly a lifestyle decision but also a product of structural changes. Home ownership rates in the US have fallen to 63.4 per cent, its lowest since 1967.

A serious obstacle has been access to credit. The big banks have tightened their rules, leaving many Americans unable to take out a mortgage.

"Lenders are still in a very restrictive mode," says Brad Friedlander, managing director of Angel Oak Capital, a mortgage lender.

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Landlords will prosper as fewer opt to buy a home

US investment Residential real estate remains attractive, especially apartments, says *Stephen Foley*

Window shopping: buying a home is out of reach for many
Daniel Leal-Olivas/PA

Protest placards and populist politicians may claim "the rent is too damn high", but the market is the market, and the market says that landlords will continue to do very nicely.

The financial return on an apartment block in the US has averaged 13 per cent annually in the five years since the economy emerged from the Great Recession and, in the US as elsewhere, institutional investors are gravitating to residential property in greater numbers.

Multifamily properties, as apartment blocks are known, have been a staple in many pension fund portfolios for decades and the sector's maturity makes it easy for investors to increase their exposure.

The $300bn California Public Employees' Retirement System (Calpers), a bellwether pension fund, raised its allocation to real estate from 9 to 11 per cent last year, with residential property a key plank in that allocation.

Whether the clamour for these assets will mean higher valuations and lower returns in the future remains to be seen, but pension fund consultants are united in the view that US residential real estate is attractive as a means of matching long-term liabilities with a long-term, income-generating asset.

"The demographics support multifamily, residential real estate very strongly and they have been getting stronger over the past five years," says Allison Yager, global head of the real estate boutique at consulting firm Mercer. "We don't believe there is going to be the same level of home ownership as there was before the downturn. Millennials [those born after 1980] are waiting longer to own their own homes and they are waiting longer to get married. Immigration drives demand, too."

Multifamily real estate makes up about a quarter of the benchmark commercial property index run by the National Council of Real Estate Investment Fiduciaries (NCREIF), which is widely used as a guide to constructing an institutional property portfolio.

Investors, who want residential property exposure in particular, can use specialist funds offered by many leading financial institutions, among which the real estate groups at JPMorgan and UBS and AEW Capital Management of Boston, have some of the biggest.

For institutions of size — those with hundreds of millions of dollars to invest — direct investment is also viable, again with the aid of specialist property managers.

Investors are likely to focus on the leading metropolitan areas and on apartment blocks that are already fully let to tenants. These are the most liquid assets in what is a much less liquid and more difficult asset class than stocks or bonds.

It is an asset class that also has unique market dynamics, including money flows from the global rich affecting prices and changes in government planning policies. However, while real estate is sometimes thought to be unrelated to other assets, it too suffered in the credit crisis: the NCREIF residential property index fell 7.3 per cent in 2008 and 17.5 per cent in 2009.

Since the recession, there has been intense debate about whether single-family homes — houses, rather than apartments — might emerge as a sub-asset class for institutional investors.

Warren Buffett, the investment guru, ultimately demurred. "If I had a way of buying a couple [of] hundred thousand single family homes and had a way of managing them, I would load up on them," he told an interviewer in 2012, but he added: "The management is really the problem, because they are one by one, not like apartments."

Some large financial firms did buy hundreds of thousands of homes in foreclosure auctions. Blackstone, the private equity pioneer, led the movement, along with American Homes 4 Rent and Colony American Homes. They have sought institutional investment to fund their portfolios, by issuing bonds or placing the properties into a real estate investment trust whose shares are available to investors.

Further experimentation is going on in the financing of single-family homes. Home Partners is financing a rent-to-own scheme and BlackRock and KKR have channelled some of their institutional clients' money into the firm.

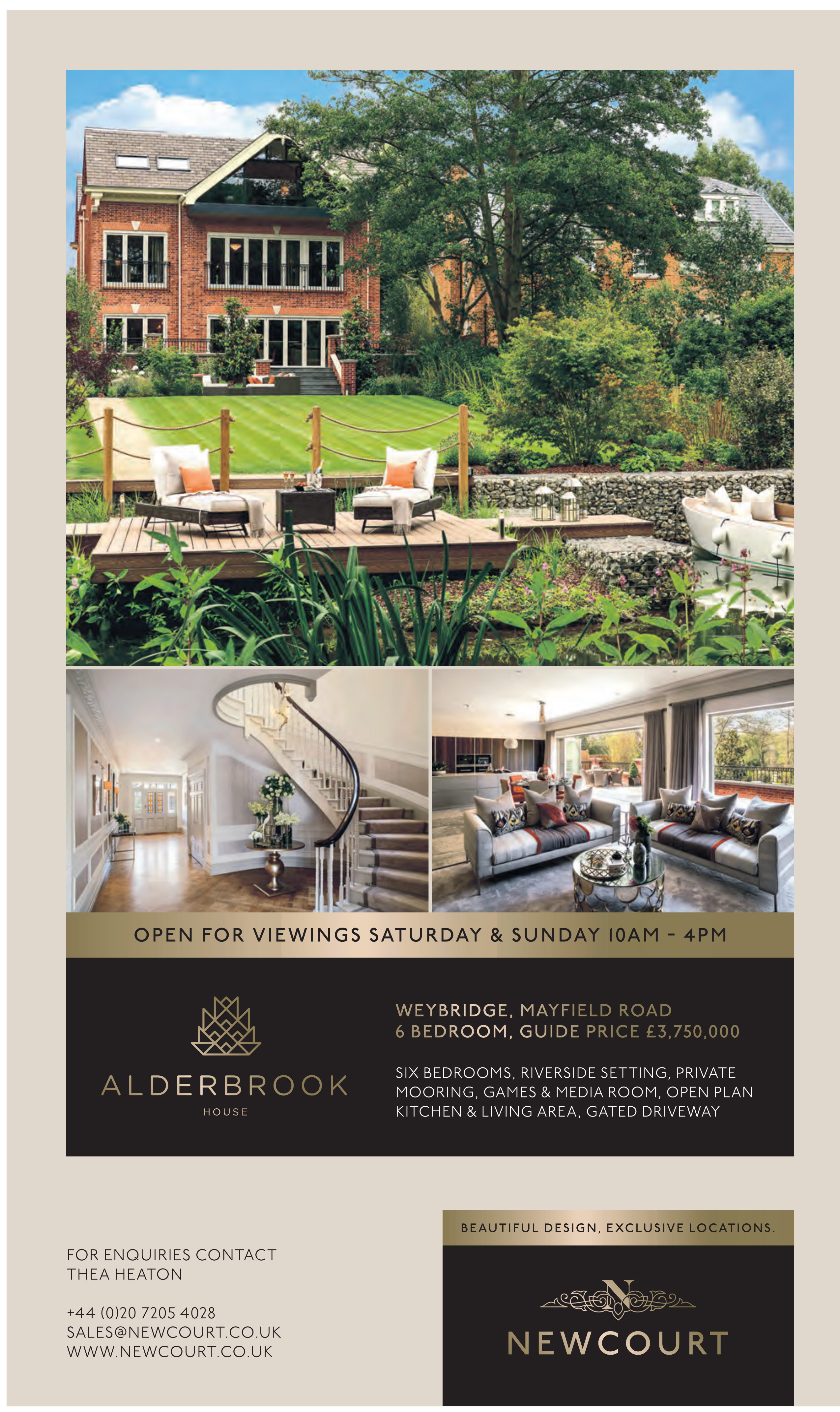
However, these innovations are likely to be too small-scale to attract most institutional investors, at least for now.

> 'Millennials are waiting longer to own their own homes and to get married'

For those without a mandate to invest directly in real estate, there is always the securitisation market, where exposure is indirect. Commercial mortgages on apartment complexes are often among the collateral in commercial mortgage-backed securities, while mortgages to individual homebuyers are once again being pooled for private-label residential mortgage-backed securities (RMBS), following a post-credit crisis hiatus: Standard & Poor's, the rating agency, predicts there will be $60bn of private RMBS issuance this year, up from $38bn in 2014.

RMBS issuance is not likely to recapture the heady pre-crisis days, however. Investors learned that house prices in the US do go down. New regulations limit the availability of subprime mortgages and lenders have no intention of returning to a period when mortgage standards were "too damn low".

Many Americans, who might once have been subprime mortgage borrowers, are now renting rather than buying homes. That means more opportunities for institutional investors to add US residential real estate to their portfolios.



Cities turn to high culture to help them work better

ARCHITECTURE

Edwin Heathcote

You can sense in the grand museums of the historic US downtown areas the idea that, if these rapidly expanding, late-19th-century cities were to become credible competitors to their European counterparts, they would need neoclassical domes, porticos and pictures.

Chicago's Art Institute, Boston's Museum of Fine Arts, St Louis's Art Museum, Philadelphia's Museum of Art and New York's Met — huge monuments executed on the scale of ancient Rome — were intended to anchor these exploding industrial giants in a world of culture and self-improvement. They were the markers that announced their cities had arrived.

More than a century later, the overlords of the emerging industrial metropolises of Asia faced a similar situation, in which municipal politicians put their faith in the architecture of culture as a symbol of wealth and taste, a sign that these rapidly expanding cities would become a presence on the global scene.

The fundamental difference was in funding. In the US, it was the robber-barons-turned-philanthropists; in China, it was the all-powerful state — with the corresponding problem that while the robber barons had huge art collections, Chinese cities are struggling with what exactly to put in their massive new museums.

Nevertheless, the intention and the effect are comparable. Retail and residential — no matter how lively a US Main Street or an Asian mall might have been — were not enough to give credibility to a city.

The US institutions have thrived. Even when the downtown areas emptied out and wealthier populations fled to the suburbs, the museums in particular maintained their education programmes and their prestige as palaces of the people, symbols of the city. Often, even in the most blighted centres (think of Detroit or Baltimore), they stood almost alone as markers of the municipal: a sense of civic pride, albeit hanging by a thread.

In recent years, the role of cultural architecture in stimulating a mixed-use city has been more marked than at any time for more than a century. The museum has again emerged as a tool for engendering a sense of the collective consciousness of otherwise fractured communities.

The opening this month of the Broad Museum in downtown Los Angeles — a striking building designed by architects Diller & Scofidio — is another piece in a puzzle which began with Frank Gehry's nearby Disney Concert Hall, through which, over two decades, the city has attempted to reinvigorate its centre.

Once the classic "doughnut city" — with the "hole" in the centre left to the most disenfranchised residents as the middle classes deserted for the suburbs — LA has been determined to make its centre urban again, through a blend of start-ups, residential lofts and independent retailers. And it has worked.

Perhaps the most ambitious urban cultural intervention in Asia is the huge M+ in Hong Kong. This is a scheme with a lot riding on it. The old island, despite its thriving economy, was notoriously short on culture. The authorities are attempting to address this gap with a massive new mixed-arts centre. It is also attempting to use the project to move the historical bias from the old colonial centre of Hong Kong Island across the water to Kowloon.

The shift has already started with the skyscrapers of the business district, luxury residences, new malls and outstanding transport infrastructure. But somehow it has not gelled, failing to attract tourists or top-end residents.

Culture is seen as the answer. M+ (the keystone of which will be a museum of art, design and architecture by Swiss team Herzog & de Meuron) is an attempt to fill that physical and cultural gap.

The museum will follow theatres, music venues and traditional opera houses as the element which redesignates West Kowloon, once a no man's land, as a cultural district. The development around it is mixed-use, but the most critical ingredient is still seen as culture.

Nowhere has approached this concept with more brio than Abu Dhabi, where Saadiyat Island was conceived as a cultural anchor to the Emirate's business and retail landscape. Gehry's Guggenheim is a vast undertaking, but it is French architect Jean Nouvel's Louvre outpost (due to open next year) with its shallow, pierced dish of a roof that is most impressive.

There are, however, concerns that culture is not quite enough, and retail is increasingly impinging on the landscape. Will this be a place of culture interspersed with the indispensable retail, or will this be a huge mall with a few museums scattered around it?

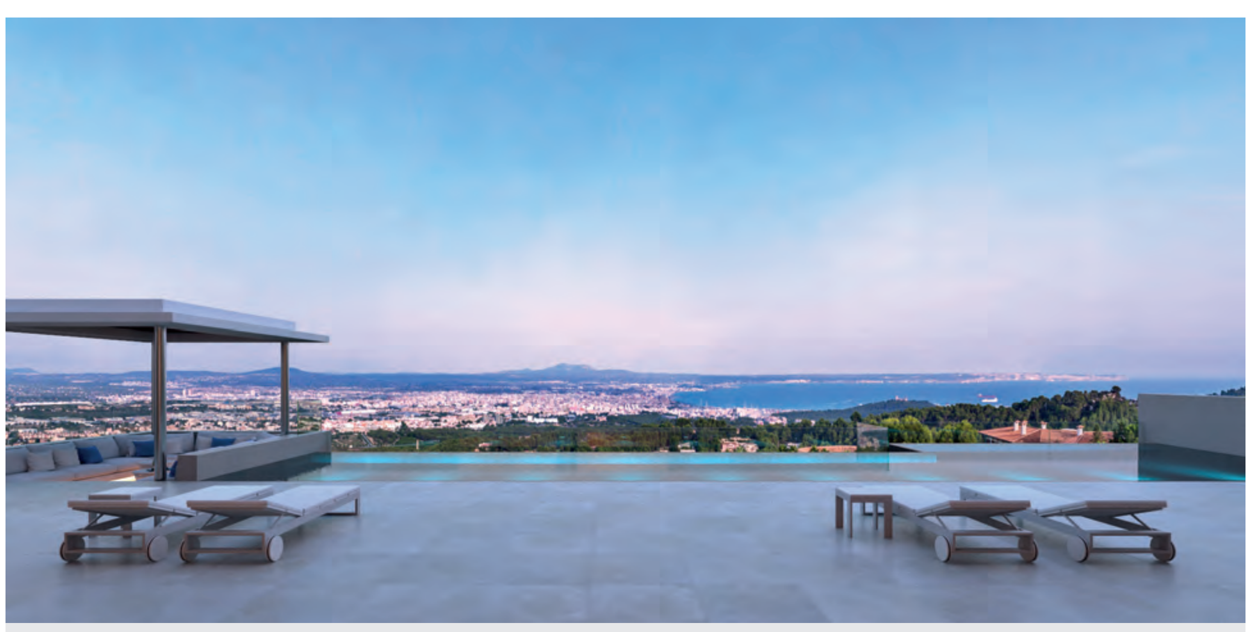
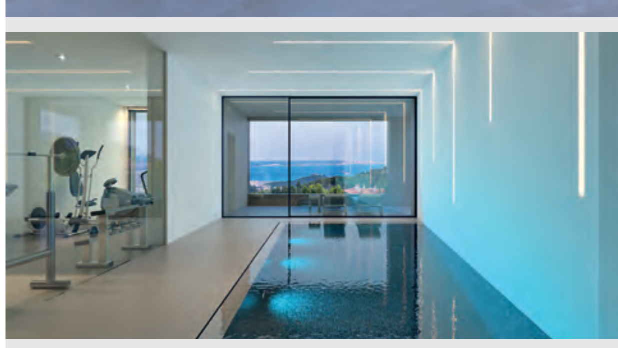
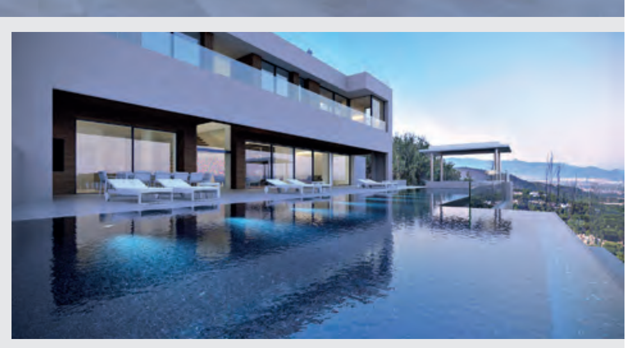
Culture was once seen as high art, as a civilising factor in the emergence of a dignified central district. Its purpose was edifying rather than commercial — albeit always imbued with a huge dose of donor ego.

Now, arguably, the architecture of culture is conceived more as a tool for regeneration or for imparting prestige for a new development.

Yet, even at its most superficial, it does create a more rooted, more mixed community and, when done well, can be the mechanism that allows the city the space to think about what life in the metropolis should be.

Design piece: the Broad Museum is another attempt by the city of Los Angeles to reinvigorate its centre
Iwan Baan

> Museums are palaces of the people, symbols of the city and the source of civic pride

Spectacular modern villa under construction in Palma - Son Vida

Son Vida is one of the most desirable and exclusive places to live. Renowned for its quality lifestyle and sheer excellence it has transformed into the "place to be" of Palma de Mallorca. In the last three years, this residential area has experienced a property boom where sales have doubled. Son Vida offers 24/7 security, spectacular sea views and from the hills views across Palma Cathedral, Palma Bay or views across the Son Vida golf course. There are three golf courses and two five star hotels that provide excellent infrastructure with restaurants, bars, wellness and sport facilities within walking distance. The area's proximity to Palma's city centre and the international airport are key selling factors. Experienced developers regard Son Vida as the ultimate location to construct their most prestigious, luxury properties.

A good example is this fantastic villa under construction with top quality materials and amazing views across the sea and to Palma´s cathedral. Featuring 1,080 sqm constructed area on a spacious plot of 2,890 sqm, outdoor and indoor swimming pools with sauna and jacuzzi, two guest apartments, a staff apartment, a total of 7 bedrooms and 7 bathrooms en suite, a fully equipped contemporary kitchen and a garage for two cars. E&V ID: W-022YFM · Price: 6,850,000 €.

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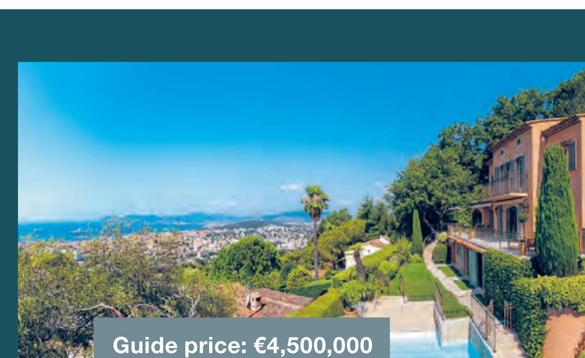

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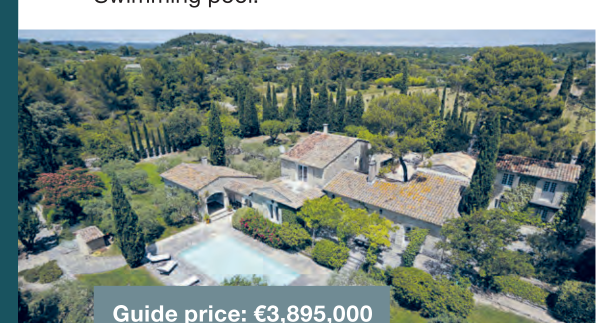
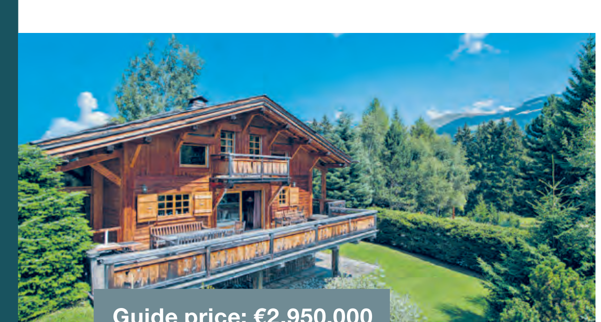
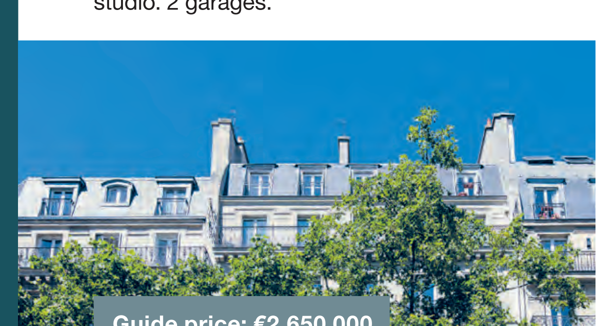


Gordes, France
An exceptional Mas offering comprehensive and tasteful living across 2 buildings. 5 bedrooms, 5 bathrooms, 3 reception rooms. Guest house. Tennis court.

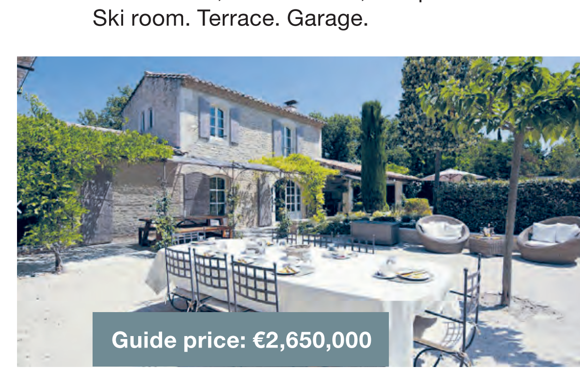


Megève, France
Beautiful chalet set in a private and quiet area only about 1 km from the ski slopes. 5 bedrooms, 4 bathrooms, reception room. Independent studio. 2 garages.

Méribel, France
Spacious chalet offering generous living space with panoramic views of the mountains. 8 bedrooms, 5 bathrooms, reception room. Ski room. Terrace. Garage.



Paris 6th, France
Charming apartment located on the Boulevard Saint-Germain. 2 bedrooms, 2 bathrooms, 2 reception rooms. Balcony. Situated on the fifth floor.



St Remy de Provence, France
Beautiful renovated Mas nestled in a wonderful setting in Les Alpilles. 4 bedrooms, 3 bathrooms, reception room. Swimming pool. Landscaped garden.

Canada hopes for a correction not a crash

Prices Increased overseas investment in the luxury residential market drives demand for government action, writes *Simon Doyle*

When Pauline Campion sold her semi-detached home in Hamilton, Ontario, a city on the fringe of Greater Toronto, in September 2014, there was a bidding war. The house went for C$231,000 — C$17,000 (US$13,000) above the asking price. This year, she bought a Hamilton condo and again, bids pushed the sale price C$19,000 higher.

"It's just too expensive in Toronto and people are moving to neighbouring cities," says Ms Campion. Hamilton is served by a commuter rail link to Toronto, Canada's largest city, where in July residential prices rose 9.39 per cent year-on-year. "It's a great time to sell . . . I think there may be a bit of a bubble."

The residential property boom in Toronto and Vancouver has raised fears that housing may no longer be a safe investment. Those concerns have not been helped by the steep decline in the oil price and its drag on the Canadian economy, which felt a modest contraction in the first half of 2015.

Cheap credit and high levels of household debt, nudged further by the central bank's two rate cuts this year which reduced its overnight rate to 0.5 per cent, have led to forecasts of a housing market correction, possibly a crash.

Demand for Toronto-area penthouses and mega-mansions has also soared. Christie's International Real Estate reported in April, that the number of luxury property sales was up 37 per cent in 2014.

The rise in prices has led to good deals for tenants in Toronto and other cities, such as Vancouver and Calgary, as many owners are renting condos for less than the property's monthly costs, says Hilliard MacBeth, a portfolio manager at Richardson GMP in Edmonton and author of *When the Bubble Bursts: Surviving the Canadian Real Estate Crash*.

"The best bargains in renting are in the luxury end, and that's true for luxury condos too," says Mr MacBeth, who predicts that the global commodities rout and oil price slide will lead to a drop in incomes in Alberta, home to the Canadian oil sands, and trigger a correction, as owners will not be able to afford their bills.

Standing tall: Toronto's CN Tower surrounded by new housing developments

"I would agree that there's going to be a correction-slash-crash in Toronto and Vancouver. It's just that it's going to start in Edmonton and Calgary. In fact, it's already started," says Mr MacBeth.

The Bank of Canada is closely watching housing prices and household debt in relation to income, which will "increase the likelihood and potential severity of a correction later on" if it continues to rise, it said in July. Canada's household debt-to-disposable income ratio stood at a record 164.6 in the second quarter of 2015, compared with 163.0 in the first quarter, according to the national statistics agency. It has risen from 142.52 per cent in the first quarter of 2008, the year of the financial crisis.

In Vancouver, investors are buying prime real estate, leading to allegations from locals that speculators are sitting on property they are not developing, adding to affordability concerns.

"Vancouver is one of the places that is house-rich and cash-poor. They [cash-poor owners] bought 20 or more years ago, and it's hard even to meet property tax [payments]," says Nathan Cullen, a British Columbia political candidate running for re-election for the New Democratic Party in the upcoming federal elections. "Things have been overheated for so long."

The price of residential properties in Vancouver rose 11.23 per cent year-on-year to July, according to the Canadian Real Estate Association. The average price of a detached home was C$1.4m, helped by foreign investors and deep-pocketed immigrant families, largely from China and Hong Kong.

The foreign investment in housing has spurred calls for intervention. Stephen Harper, the prime minister whose Conservative government has tightened the mortgage lending rules, has made a campaign promise to start collecting data on property bought by foreign investors, with the aim of limiting foreign speculators if necessary, as is done in Australia and Britain.

Jonathan Cooper, an executive with Macdonald Realty, says the company's 2014 data indicate that Chinese buyers made up 70 per cent of transactions for Vancouver homes worth C$3m and above.

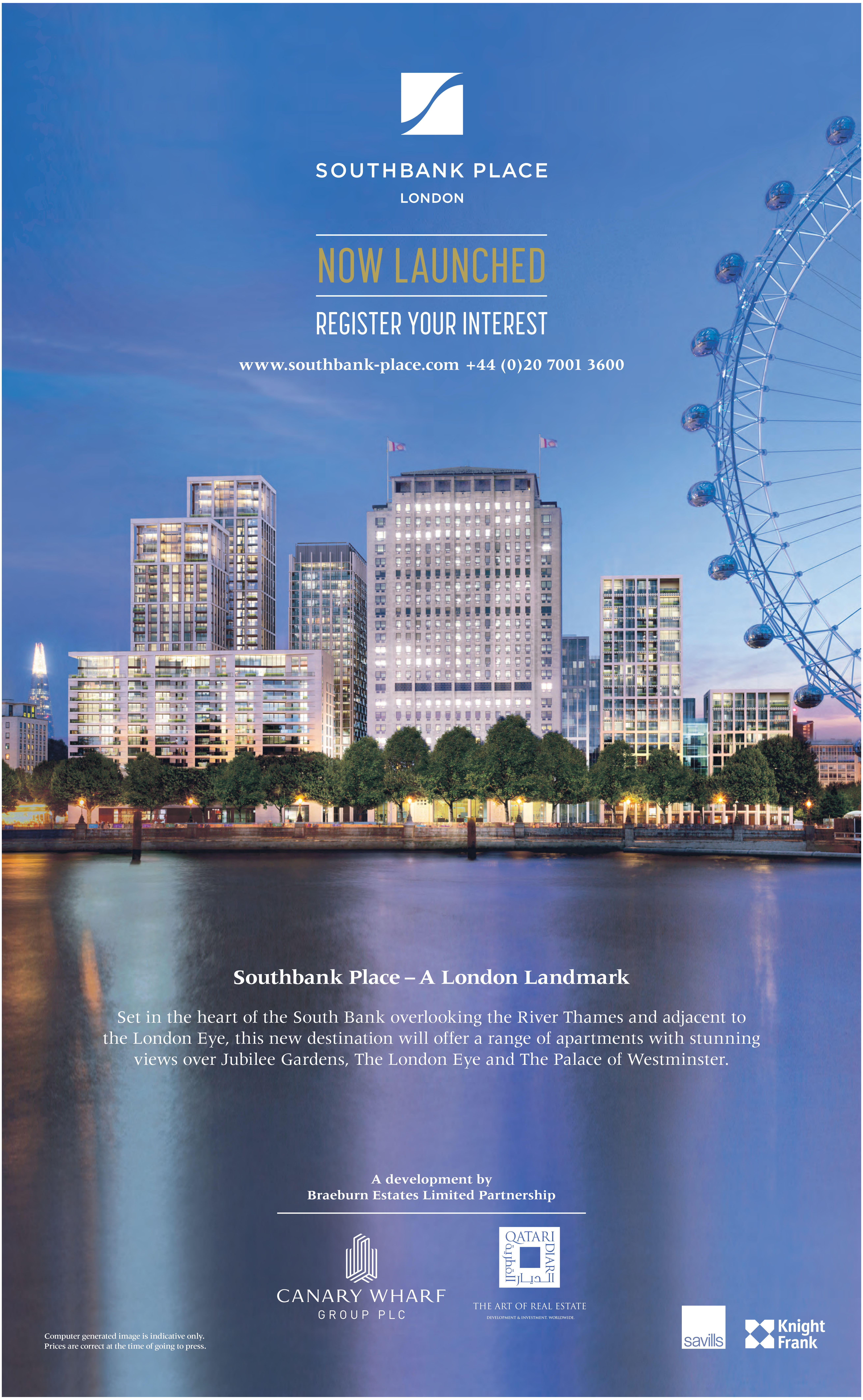
> 'The best bargains in renting are in the luxury end, and that is true for luxury condos too'

That number was 11 per cent for homes worth below C$1m. The majority of foreign clients buying property in Canada were immigrating to the country.

Robert Hogue, an economist with RBC Economics in Toronto, forecasts a slow cooling in property prices, as opposed to a crash. He thinks the slowing is likely to start with rising interest rates in the latter part of 2016.

He is watching the market for affordability issues, an indicator of stress, with RBC's affordability index ranking Toronto close to 60 per cent — the proportion of household income needed to service the costs of owning a home — the highest it has been since the early 1990s.

Vancouver is ranked at more than 80 per cent, a range it has not seen since 1982 when it exceeded 90 per cent. Mr Hogue believes Vancouver is "very sensitive to interest rates".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Sydney faces wall of Chinese money

Australia There are fears of a bubble as foreign investment almost doubles, writes *Jamie Smyth*

Harbour views: an artist's impression of the Barangaroo development in Sydney — Lend Lease

It took just three and half hours to sell the 159 waterfront apartments at the glitzy Barangaroo development on the Sydney harbour front, with almost a third of them snapped up by overseas investors.

Andrew Wilson, managing director of Lend Lease, Barangaroo South, says: "We received global enquiries from a range of buyers including professionals and executives, expatriates looking to return home, investors and homeowners looking to downsize for a more convenient lifestyle."

The off-plan sale in October 2013 was the first stage of a A$6bn retail, office and residential development. Lend Lease is preparing for the launch of a further 750 apartments, which will provide views of Sydney's iconic opera house and harbour bridge.

Interest among foreign buyers remains strong, the company reports.

The value of foreign investment in Australia's residential property almost doubled to A$34bn in 2013-14, the latest year for which data has been published. And, for the first time, China became the largest source of foreign investment — leapfrogging the US — following a surge in government approvals for purchases in the property sector.

"There is a lot of appetite in China for Australian property, particularly in Sydney and Melbourne," says Esther Yong, director of ACproperty.com.au, an Australian Chinese language property portal that organises seminars for investors in cities across China.

She says that a downturn in the Chinese property market, a desire by investors to move their money out of China to diversify their investments, and growth in the number of Chinese either moving themselves or sending their children to school in Sydney and Melbourne have stoked the enthusiasm.

"With an uncertain environment in China, many feel it is safer to get their money out of the country," Ms Yong adds. "We also see many buyers for property near good schools and universities."

The wave of Chinese money flooding into Sydney and Melbourne in recent years has sparked a debate over the impact on the local housing market. Some say it is forcing prices up and preventing first-time buyers from gaining a foothold on the ladder. Others say it is driving a surge in building, which is lifting an otherwise faltering economy.

House prices in Australia's two biggest cities, Sydney and Melbourne, jumped by 18.4 per cent and 11.5 per cent respectively in the 12 months to the end of July. In Sydney over the past year more than a third of homes sold for more than A$1m, according to CoreLogic RP Data, a research group.

"In Sydney and Melbourne, foreign buyers probably are pushing up prices somewhat, but they also appear to be adding to the supply of apartments," says Saul Eslake, an independent economist. "The data overall suggest it is local investors pushing up prices the most."

Investors account for half of home loans issued in Australia, prompting regulators to warn about the dangers of a housing bubble and to force banks to hold more capital against their mortgage book. Australian Bureau of Statistics data show that the percentage of property purchases by first-time buyers fell to 13.7 per cent in February, down from 18.5 per cent in mid-2012 and a high of 30 per cent in 2009.

> 'The data suggest it is local investors who are pushing up prices the most'

Under existing rules, foreign purchasers can buy new properties but need regulatory approval to buy established properties. But until recently there was little scrutiny or enforcement of these laws, enabling some to buy existing homes.

But that is changing as the government responds to the concerns of first-time buyers. In August, Joe Hockey, Australia's then treasurer, unveiled regulations promoting greater oversight of foreign buyers, a fee system to pay for increased checks on overseas buyers, and criminal penalties of up to A$135,000 for individual lawbreakers.

Australian authorities have already ordered several foreign owners — including a Chinese billionaire who bought a A$39m waterfront Sydney home — to divest themselves of properties they were alleged to have bought illegally.

"Foreign investors must obey the rules," says Mr Hockey, who has given any foreign buyers who may have broken rules until the end of November to come forward or face possible criminal sanctions.

Michael Zhu, a real estate agent with House 18, which sells property to high-end Chinese buyers, says the new rules may scare off investors: "There are plenty of markets in the US or Europe that will welcome Chinese money."

Mr Zhu says stock market jitters in China may also slow investment, but not everyone agrees. Credit Suisse predicts A$60bn of Chinese investment in Australian housing up to 2020. It says the new rules on foreign buying will only hit demand marginally and notes the recent devaluation of China's currency could lead to a short-term spike in demand.

"Expectation of further renminbi weakness could bring forward demand for Aussie housing, as investors rush to get their currency out of the country before it is devalued further," Credit Suisse reported on 12 August.

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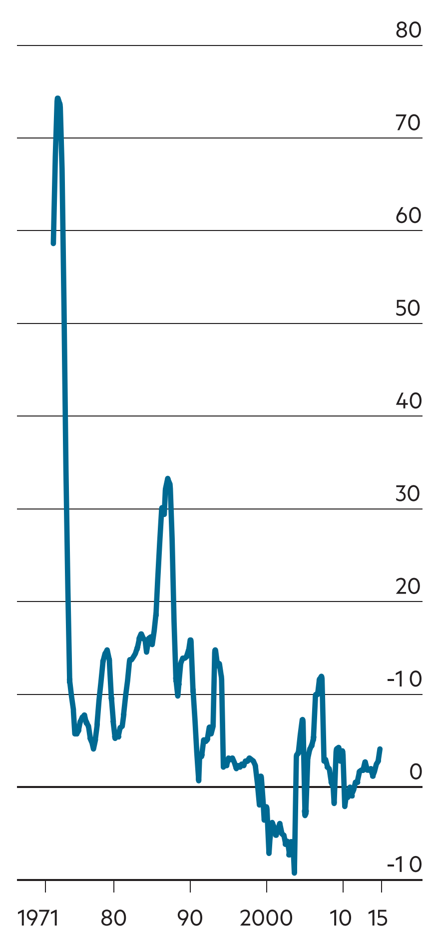

Sources: Thomson Reuters Datastream; Deutsche Bank
Photo: Niromaks/Dreamstime FT graphic

Japan's real estate agencies fear darker times ahead

Tokyo Housing market speculation grows as Asian buyers pour their assets into the country, reports *Kana Inagaki*

Having long been dismissed as the land of the falling house prices, Tokyo's real estate market is staging a comeback.

An Abenomics-driven weaker yen and a slowdown in China are triggering an influx of Asian capital into Japan as a haven investment.

Investors from China, Hong Kong and Taiwan are snapping up everything from condominiums in central Tokyo, to office buildings, housing, convenience-store chains, and ski and hot-spring resorts across the country.

"It's almost as if they are buying candies. Their purchases come extremely fast," says Takeshi Saishoji, general manager at Nomura Real Estate Urban Net.

Japanese real estate brokers such as Nomura have opened offices in Hong Kong and Singapore over the past year to tap into demand from high-net-worth individuals, and setting up tours for east Asian investors that include limousine transfers from the airport.

At Nomura, the value of transactions with east Asian investors has increased from Y10bn ($83m) in 2013 to Y15bn last year.

In May, Daikyo Anabuki Real Estate held seminars at hotels in Hong Kong and Taipei that drew about 100 participants.

"Japan has less of a country risk and it is stable, whereas real estate prices in Hong Kong are soaring," says Jin Sugawara, general manager at Daikyo Anabuki.

After the economic bubble burst in the 1980s, real estate prices in Japan declined for nearly a quarter century, excluding a brief spike before the global financial crisis of 2008.

But a commitment by Prime Minister Shinzo Abe to banish deflation, combined with the Bank of Japan's aggressive monetary easing, have sent the yen depreciating sharply and spurred expectations of a rise in property prices.

"To some Asian investors, real estate prices appear about 20-30 per cent cheaper now, compared to before Abenomics," says Mr Saishoji.

'It's almost as if they are buying candy, all across Japan. These purchases are extremely fast'

Analysts at Deutsche Securities also say that several preconditions for an asset bubble in Japan are in place. These include high expectations of the selection of Tokyo for the 2020 Olympics, and strong real estate lending by banks.

New loans by Japanese banks to the real estate sector topped Y10tn ($83bn) in the 2014-2015 financial year, equalling the level of the 2007-2008 mini-bubble.

Yet that is still nowhere near the estimated Y50tn in banks' real estate lending during the late 1980s and the early 1990s, according to the brokerage. Overall, land prices are still declining nationwide, but the recovery has been strong in big cities.

The average price of a new condominium in Tokyo's 23 wards during the first six months of 2015 was Y62.31m, up 5.9 per cent from a year earlier and reaching the highest level since 1992, according to the Real Estate Economic Institute.

The initial offering of 495 condos at Brillia Towers in the popular Meguro area of central Tokyo in mid-July was sold out immediately, with the highest price tag at Y459m.

The most popular units were 43 times subscribed, according to Tokyo Tatemono, the developer. Analysts say the high rate of buyers over the age of 50 also reflects solid demand from wealthy Japanese individuals looking to counter higher inheritance taxes by parking their money in property.

Average rents in Tokyo's 23 wards for mid-market apartments have also recovered since a correction that took place in the wake of the financial crisis that followed the collapse of Lehman Bros in 2008.

Rents rose 1.1 per cent year-on-year during the second quarter of 2015, according to London-based real estate agent Savills.

"Yields in Tokyo are higher than those in Hong Kong and Singapore, while the cost per square metre is substantially cheaper than either," says Christian Mancini, who is chief executive officer of Northeast Asia and Japan at Savills, the estate agent.

Residential yields in Tokyo for mid-market condos are about 3-4 per cent, compared to 2.5-3 per cent in Hong Kong and 3-3.5 per cent in Singapore, according to Mr Mancini.

Mitsuo Hashimoto, director at estate agency Housing Japan, says that overseas interest in Japanese real estate has been the highest since the company started providing leasing services to expatriates in 2000.

"During the 2004-2008 boom, the driver was institutional investors from the US and Europe. Now, there are more investments from wealthy Asian individuals," Mr Hashimoto says.

During 2015, the company has seen its real estate transactions involving overseas investors double from a year earlier, and expects a similar pace of growth this year.

Still, a bigger question for investors is whether the real estate boom will survive a planned increase in Japan's consumption tax to 10 per cent, up from 8 per cent, in April 2017, and persist beyond the 2020 Olympics.

As analysts Yoji Otani and Akiko Komine, of Deutsche Securities, wrote recently: "We believe this party will most likely be the last one for the Japanese real estate market. Despite that, the dance music is playing a lively tune.

"For now, we see no choice but to continue to dance."

Foreigners pile into Central Park's Billionaires' Row

New York

In the past two years, the Chinese upper class has been moving its money into overseas property, writes *Anna Nicolaou*

Elizabeth Stribling sold half the Plaza Hotel apartments to foreigners

Tucked away at the eastern end of so-called Billionaires' Row in Manhattan — a stretch of glittery skyscrapers that house members of the world's elite — is number 252 East 57th Street.

It boasts curved glass sides, panoramic views of Central Park, a hydrotherapy spa and a covered driveway to offer complete privacy and discretion to celebrities and diplomats on what is also known as America's Monopoly board.

More than a quarter of its 93 units have been snatched up, even though the tower will not be completed for another year.

"The Chinese like to buy off-plan," says Elizabeth Stribling, chairman of Stribling & Associates, which is marketing the development. "It makes them feel they're getting the best offering."

Ms Stribling should know: she sold the Plaza Hotel apartments in 2007, about half of which went to foreigners.

"They see America as a safe haven," she says. "With market turbulence right now, it's even more of a reason to diversify their portfolios."

For the past decade, nomadic billionaires have poured their money into US property, particularly in Manhattan, which is seen as a liquid market that can only go up.

Meanwhile, New Yorkers bemoan that the Chinese are collecting condos as trophies and leaving them empty, inflating prices and making housing unaffordable for locals.

But as the US bounces back from 2008's crippling housing crash, two things are apparent: China's shopping spree has become both more voracious and more luxurious.

This year, the Chinese for the first time became the biggest foreign buyers of US residential property, in terms of units, dollar volume and price paid, according to a report from the National Association of Realtors, which tracks property purchases across the country.

In the 12 months to the end of March, Chinese buyers spent $28.6bn on residential real estate in the US, more than double that spent by Canadians, the next biggest source of foreign buying — a far cry from 2011, when the Chinese spent $7bn on US real estate, or 2000 when they spent $50m.

And they are spending big.

The Chinese bought homes that were more than three times pricier than Americans, paying on average $831,800 per property — about 70 per cent of it paid in cash — compared with $255,600 for a US buyer.

Amid stock market gyrations, anti-corruption campaigns and a slowing economy at home, the Chinese upper class has in the past two years been keen to park its money overseas.

"In the 5,000 years of China's history, never have so many Chinese quietly moved so much money out of the country at such a fast pace," wrote RealtyTrac in a research note last month.

"Nowhere is that . . . capital flight more prevalent than into the US residential real estate market, where billions are pouring into the American dream."

Stephen Shapiro, vice-president of New York capital markets at Jones Lang LaSalle, says: "They aren't necessarily being bought for occupancy. They're using it as a bank. If you live in China, or Russia, or Venezuela and you need to get your currency out of there . . . buying real estate in New York has proven [in] every cycle as the safest investment."

China underpinned New York's recovery because, even though local buyers pulled back, Chinese appetite for condos remained strong, with average home prices in New York exceeding 2006 peak levels. This led to a swath of new luxury developments breaking ground.

When the 75-storey number 175 West 57th Street was completed last year, it became the tallest residential tower in New York City. A few months later, 432 Park Avenue, another super luxury skyscraper on Billionaires' Row, became the tallest.

Developers saw these high-flying projects and piled in, says Andy Gerringer, managing director of The Marketing Directors, a real estate marketing company.

"It's a herd mentality," says Mr Gerringer. "Everybody has been chasing the super-high end."

But despite the doubling of land prices in the past few years, luxury has become ever more ubiquitous. With higher costs, it is harder for developers to justify new towers that do not command the highest prices.

More than 80 per cent of new US multifamily units — or apartment towers — built in the past two years have commanded rents in the top fifth of the market, according to CoStar, a property research group.

In recent years, China's shopping habits have become more voracious and more luxurious

"The air is very thin up there," says Mr Gerringer. "There are only so many people that can afford $20m apartments."

Strong demand shapes skyline of India's financial capital

Mumbai

Developments in the city are reaching for the sky – and so are the prices, writes *James Crabtree*

As Babulal Varma pondered how to attract buyers to one of Mumbai's most expensive real estate projects, he took inspiration from the homes India's wealthiest residents seemed to like.

"Our thought process was that rich people in New Delhi and other cities have these huge farmhouses, these massive big bungalows," says the managing director of Omkar real estate group, whose Omkar 1973 tower complex is midway through construction.

"In a farmhouse or bungalow, you have openness, greenery and lots of space. But here [in Mumbai], the problem is there is no land, so whatever you have, it has to be in the building itself. So that is what we did."

The result is what Omkar dubs a "sky bungalow", meaning unusually large apartments — at unusually high prices.

The largest are more than 30,000 sq ft and close to the top of each of the project's towers. They come with an array of features — from swimming pools and squash courts to a banqueting hall and pet spa — alongside pleasing views over the Arabian Sea.

Buyers must part with "well above 200 crore" — meaning Rs2bn ($30.2m) — to pick one up, Mr Varma says. That price tag is part of a wider pattern of luxury high-rise residential complexes popping up around India's financial capital.

Each of the three towers in Omkar's development, to be completed by 2017, is more than 70 storeys. Lodha Group, Mumbai's biggest developer by revenue, is marketing a series of even taller rivals, the most conspicuous being World One. This will top out at 1,450 ft in 2016, making it the world's tallest residential building, and feature flats designed by Italy's Giorgio Armani selling for up to Rs500m.

Lodha is also marketing a six-tower complex nearby, know as the Park. This includes Mumbai's own Trump Tower, following a tie-up between the developer and the US real estate mogul and aspirant presidential candidate.

Elsewhere, a profusion of fancy residential buildings is appearing, marketed by local developers and global brands such as the Four Seasons hotel chain, helping Mumbai shed its reputation as a city of charming but dilapidated premium real estate.

'Bungalows' with a view: the Omkar 1973 towers overlook the Arabian Sea

This flurry of building is driven by increasing land supply and growing demand, says Ashutosh Limaye, head of research at Jones Lang LaSalle (JLL) property consultants.

Hemmed in on a narrow peninsula, Mumbai is starved of space, driving up prices. But over the past decade, developers have got their hands on plots left behind when its textile mills closed in the 1980s. Schemes to clear some of the city's infamous slums, while rehousing their residents, have also helped.

'When wealth is created, it inevitably ends up filtering through into property'

"The other factor is the demand side," Mr Limaye says. "Urban India creates a lot of wealth and, when wealth is created, it inevitably ends up filtering through into property, which is what you see in south central Mumbai."

These processes are reshaping the skyline of the financial capital, and shifting its geographical balance, too. Most of the new premium properties are in its midtown area — notably the districts of Worli and Parel — rather than the traditionally fashionable south.

These areas are close to the airport and the relatively new business district, the Bandra Kurla Complex, which has tempted many financial institutions and global banks to migrate north over recent years. Proximity to the Bandra-Worli Sea Link, a six-lane highway built off the coast to avoid choked land routes, is another advantage.

Despite all this activity, Mumbai's residential property market is not exactly booming. India's economy is only just recovering from a prolonged slowdown, leaving even wealthy buyers cautious.

The profusion of luxurious new complexes has provided plenty of choice too. Many developers are struggling to sell units, according to research from JLL.

For buyers, Mumbai property remains a risky proposition. Projects are generally financed in stages, with purchasers asked to provide tranches of capital as construction moves forward. If things go wrong — as in India they often do — hopeful homeowners can be left holding investments in stalled, half-finished buildings.

Of late, this has produced a "huge flight to quality" says Abhishek Lodha, managing director of Lodha, as luxury customers gravitate away from smaller developers, many of whom have struggled to shed an image for weak corporate governance, or had too many projects stalled in bureaucratic tangles.

"Mumbai is one of the most difficult places to build real estate," Mr Lodha says. "If you can build something good here it will be a great asset. The value will appreciate over time because there is such scarcity of land. But if you get stuck, it is the worst thing in the world."

Mr Limaye concurs, noting that many developers have struggled with rising debts and regulatory problems.

"There is going to be a sanity check in the market," he says. "The good ones do well, but the old fly-by-night style developers . . . are finding it extremely tough to survive and make profits in today's conditions."

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