CAPITAL ATTRACTION:
THE RISE OF AUSTRALIA AS AN INVESTMENT DESTINATION

8th September

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Prepared for:
UNSW Real Estate Symposium 2015

CBRE

TODAY'S PRESENTATION

Observations on capital flows to Australia

What's attractive about Australia ?

Offshore investment into residential real estate

Cross border capital flows outlook and implications

OBSERVATIONS ON CAPITAL FLOWS TO AUSTRALIA

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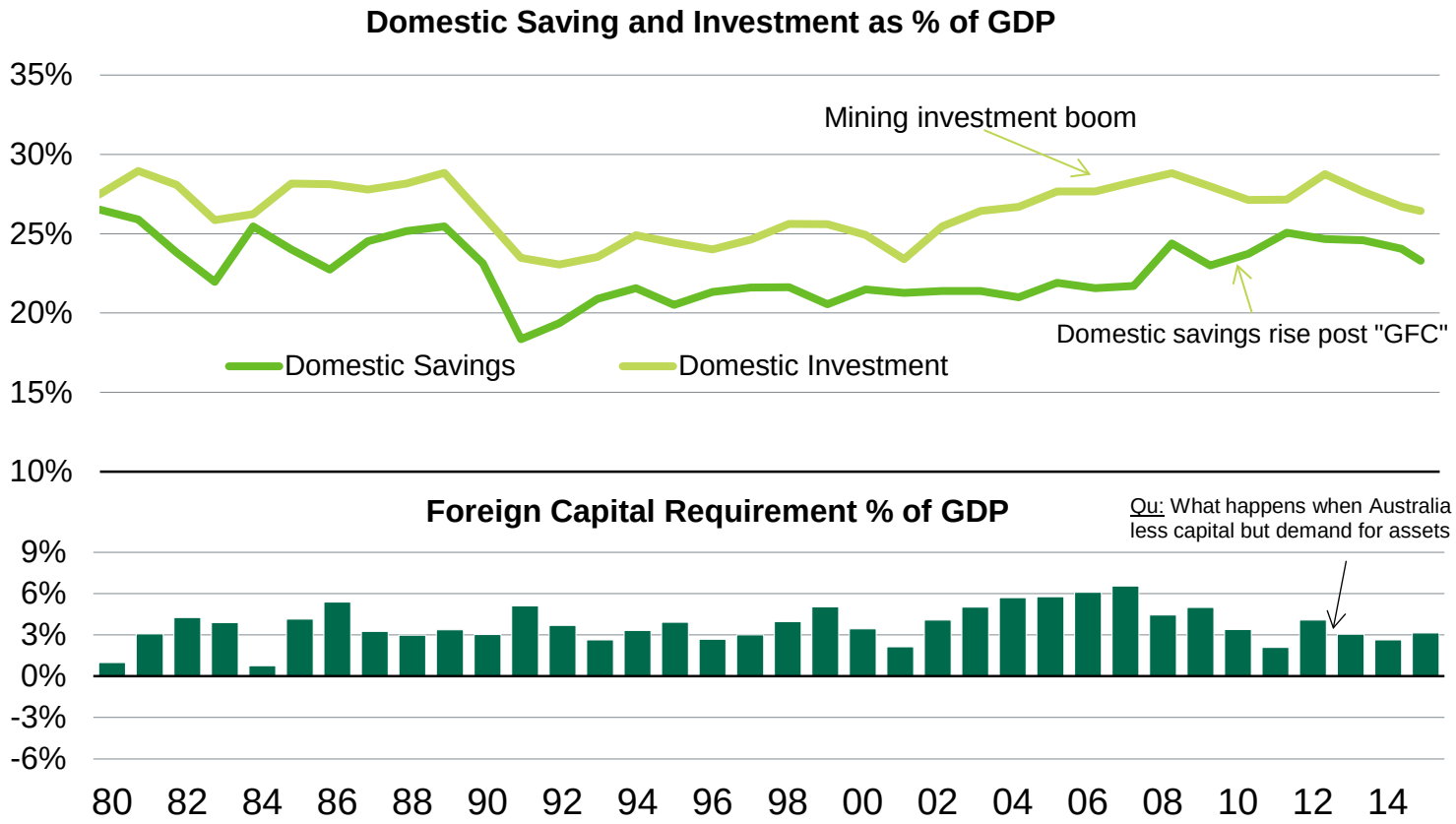
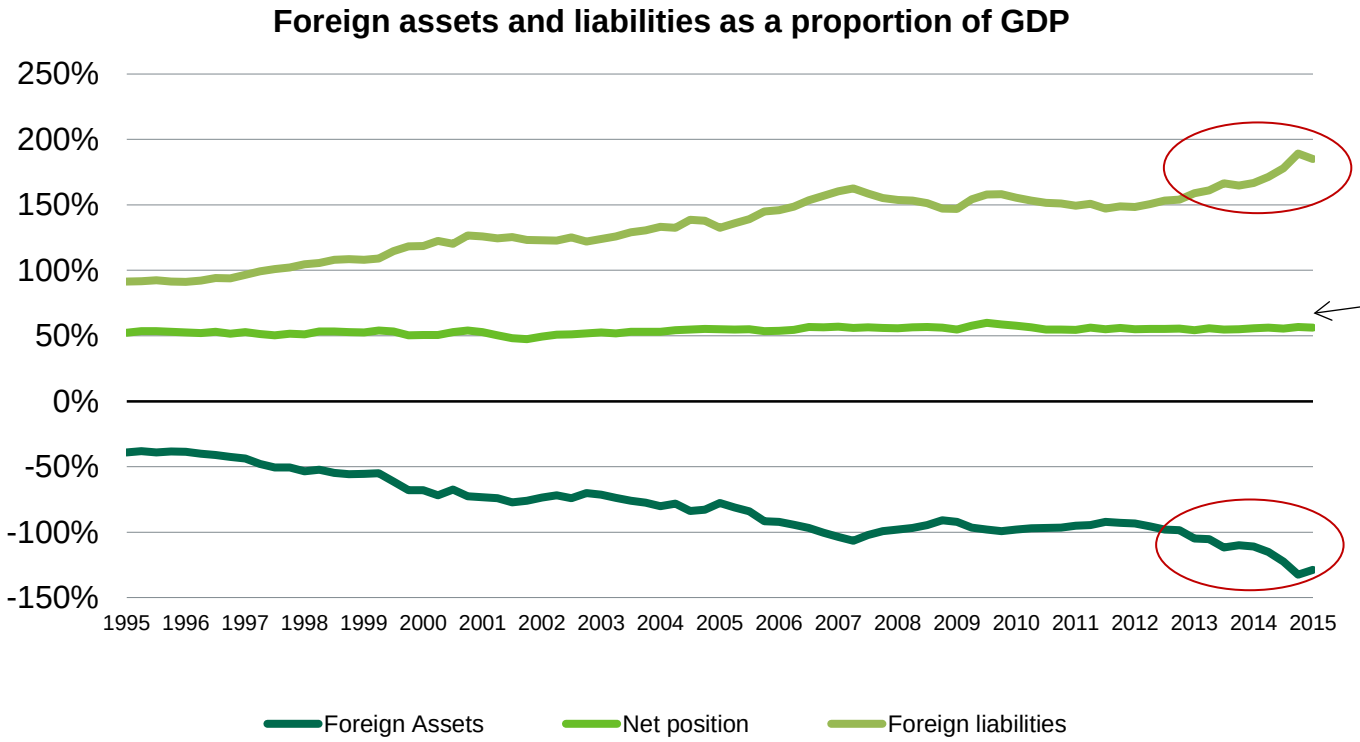
A FEW BASICS - AUSTRALIA IS A CAPITAL IMPORTING COUNTRY



Source: ABS, CBRE Research

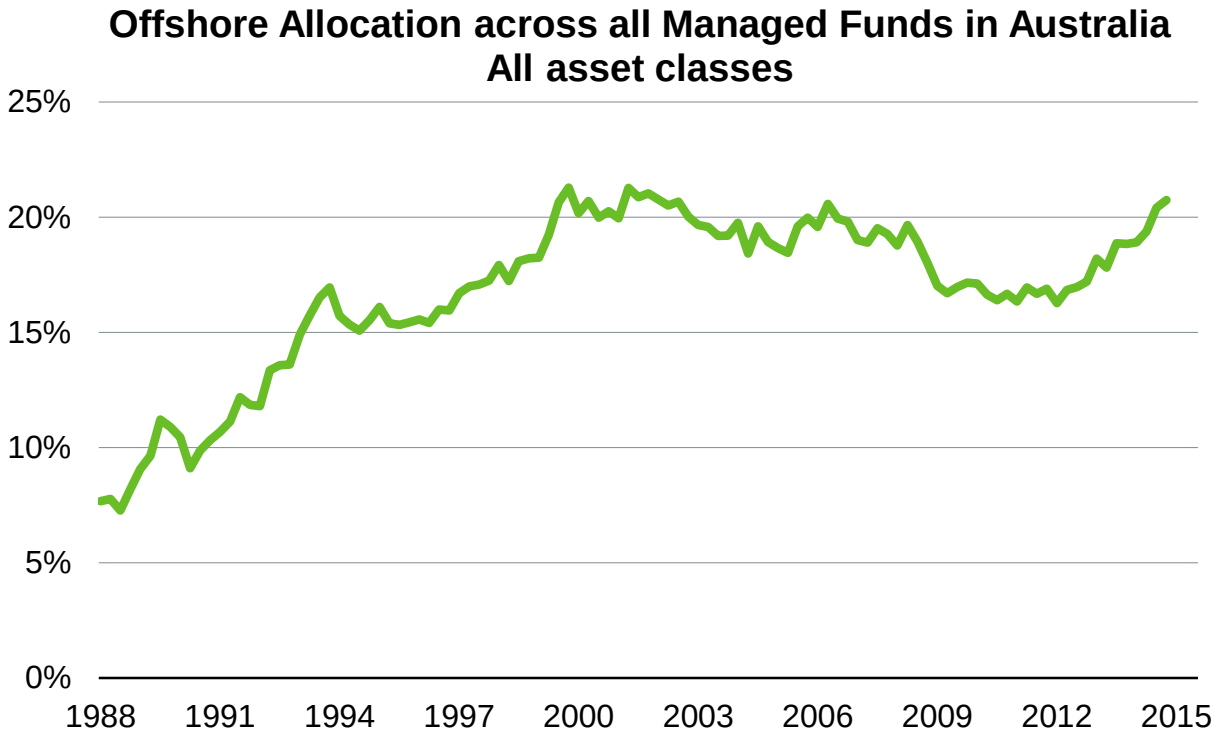
GLOBALISATION IN ACTION – RISING FOREIGN ASSET AND LIABILITY POSITION BUT NO PRESSURE ON THE OVERALL BALANCE



Overall external position is fairly balanced relative to GDP so every dollar in equals a dollar out

Source: ABS, CBRE Research

GLOBALISATION – LOCAL ALLOCATIONS TO OFFSHORE HAVE RISEN



Source: ABS

Implication for Australia's property markets:

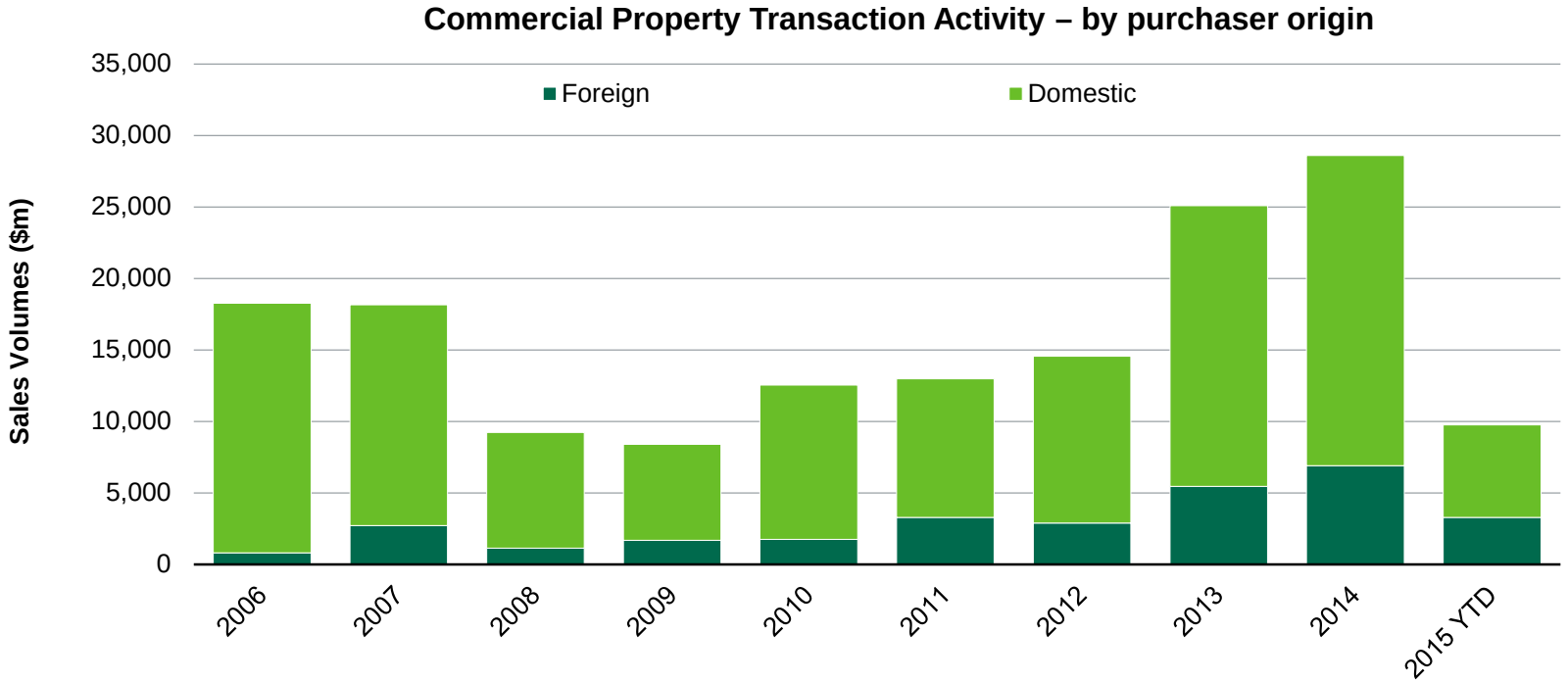
Domestic investors looking to diversify offshore

- AustSuper acquisition of share in Hawaiian shopping centre ($1.1b)

Local investors with mandated hurdle rates are squeezed out of market

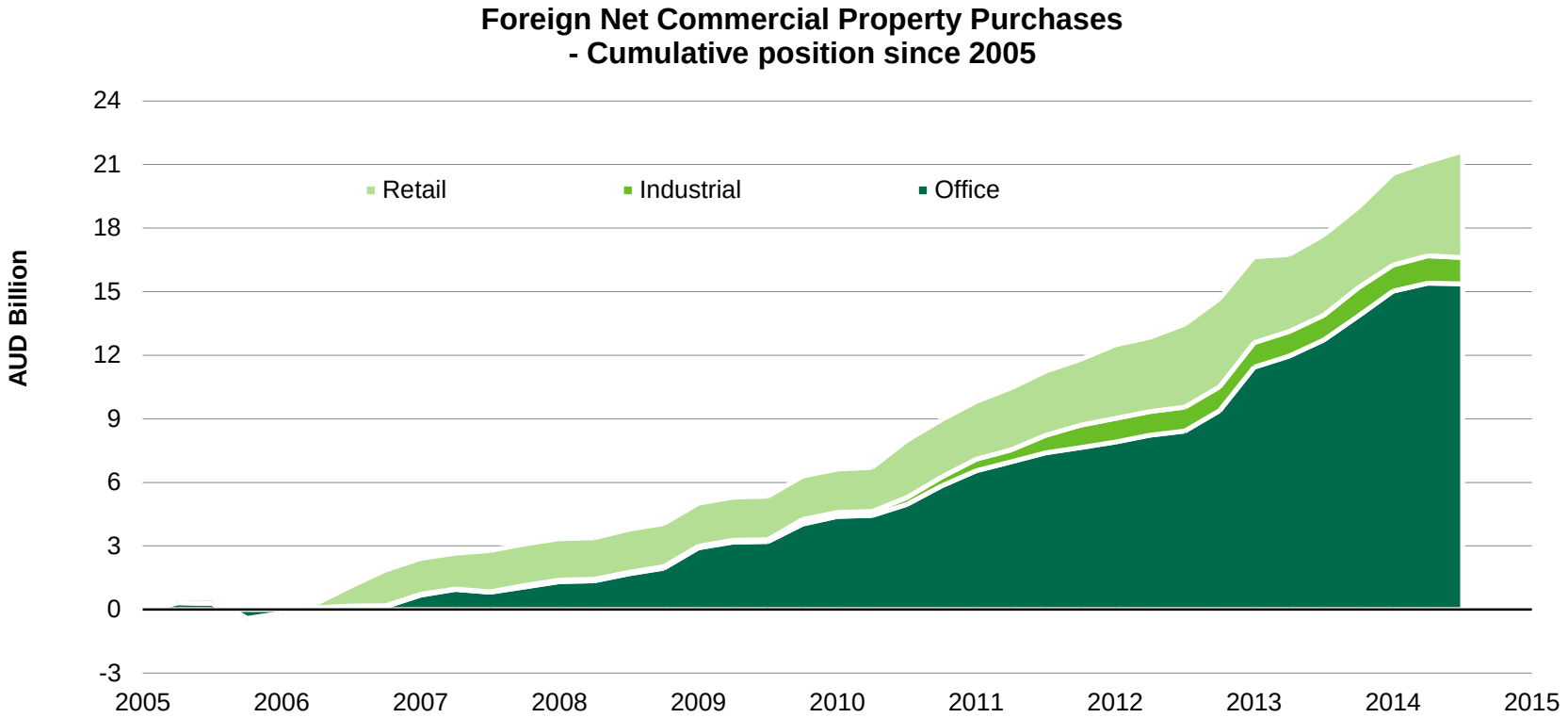
WHAT HAVE WE SEEN IN COMMERCIAL PROPERTY MARKETS ?
FOREIGN PURCHASE ACTIVITY HAS INCREASED

The key question is whether this represented a shift in the net position or just more globalisation (rising cross border flows in both directions)



Source: CBRE Research

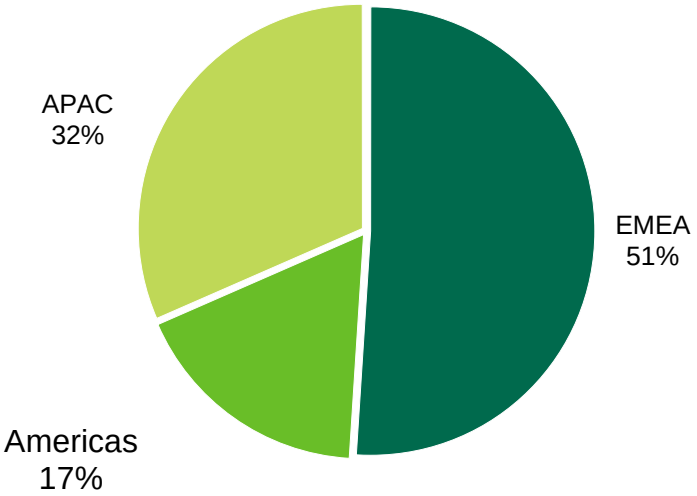
FOREIGN INVESTORS HAVE BEEN NET ACQUIRERS OF COMMERCIAL PROPERTY SINCE 2007



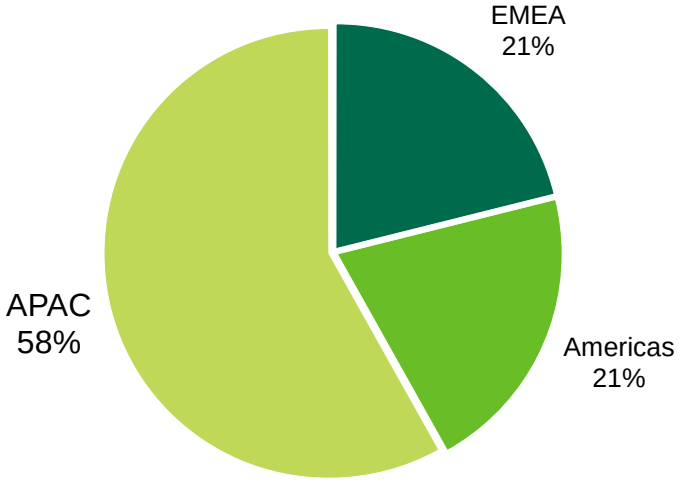
Source: CBRE Research

THE COMPOSITION OF THE ORIGIN OF FOREIGN INVESTORS HAS CHANGED

Origin of Foreign Purchaser 2008-2012



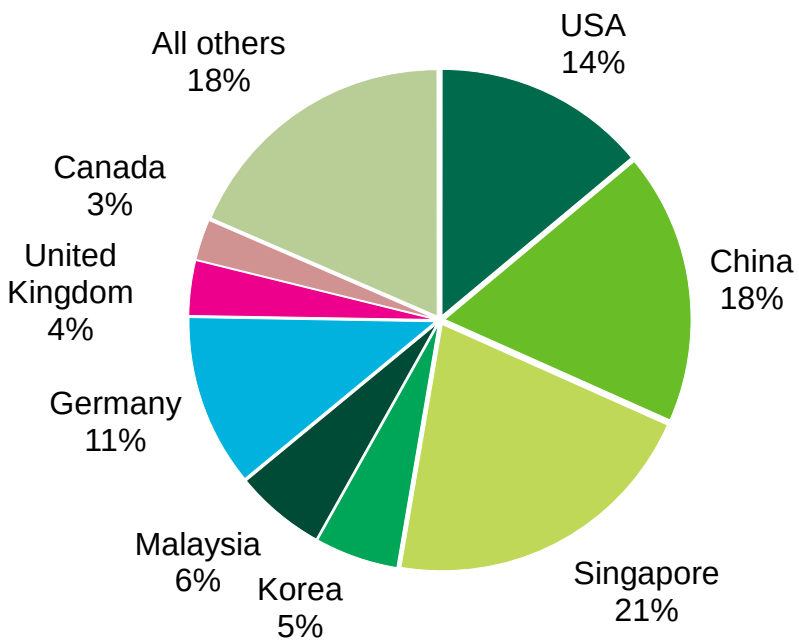
Origin of Foreign Purchaser 2013-2015



Source: CBRE Research

AND THERE IS NOW A VERY DIVERSIFIED MIX OF INVESTORS BY ORIGIN

Origin of Foreign Investor 2007-2015



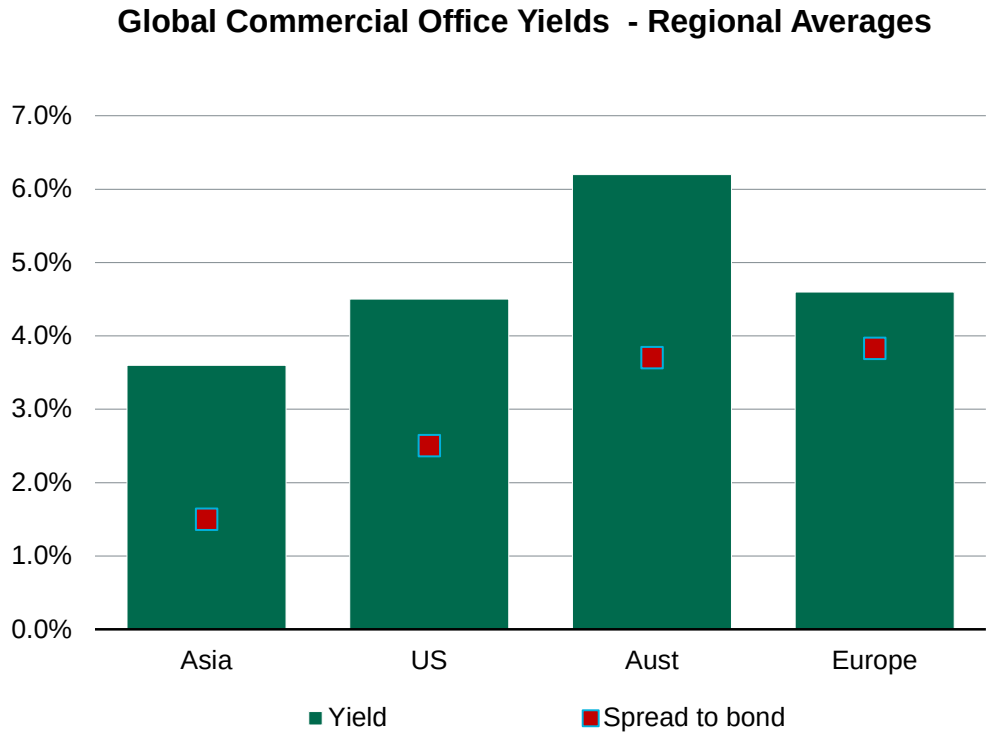
Investment into Australia over the last 7 years led by Singapore…

- China overtook Singapore as source of capital in 1H 2015 and moves further ahead…Investa portfolio ~$2.4bn
- Total foreign purchases from 2007 to YTD-2015 = ~21% of total (but 33% in 2015)

Source: CBRE Research

WHAT'S ATTRACTIVE ABOUT AUSTRALIA?

HIGHER ECONOMIC GROWTH, INTEREST RATES AND YIELD SUPPORTED CAPITAL FLOW TO AUSTRALIA

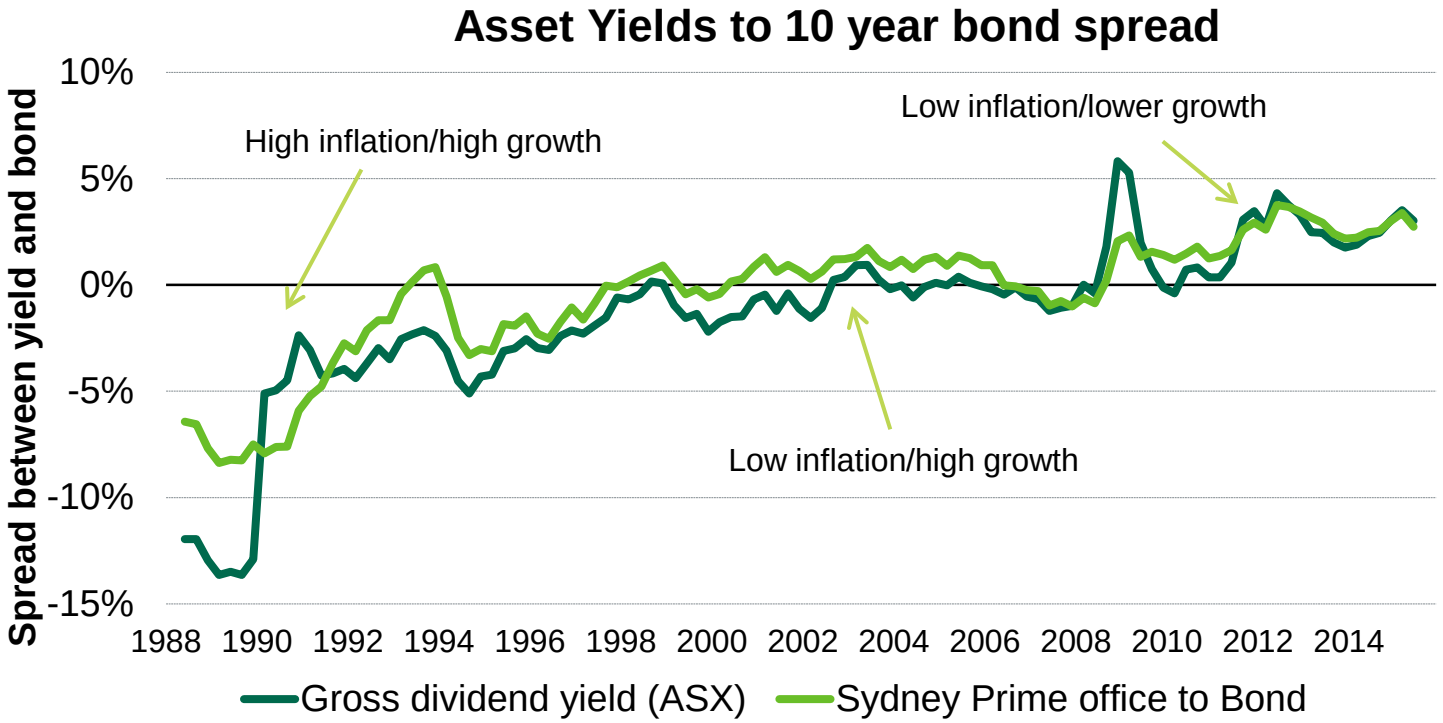


Source: CBRE Research

- Higher growth/rates and yield structure
- Lower risk: AAA-rated sovereign
- Banks/Financial system lower risk; capitalised and credit risk managed

WIDE SPREADS TO BOND DON'T, BY THEMSELVES, MEAN GOOD VALUE BUT THEY AT LEAST MEAN FAIR PRICING

Property and equity looks fair value compared to bond rates



Assets priced off growth have seen yields widen relative to bonds i.e. more "return" has to be delivered from yield rather than growth.

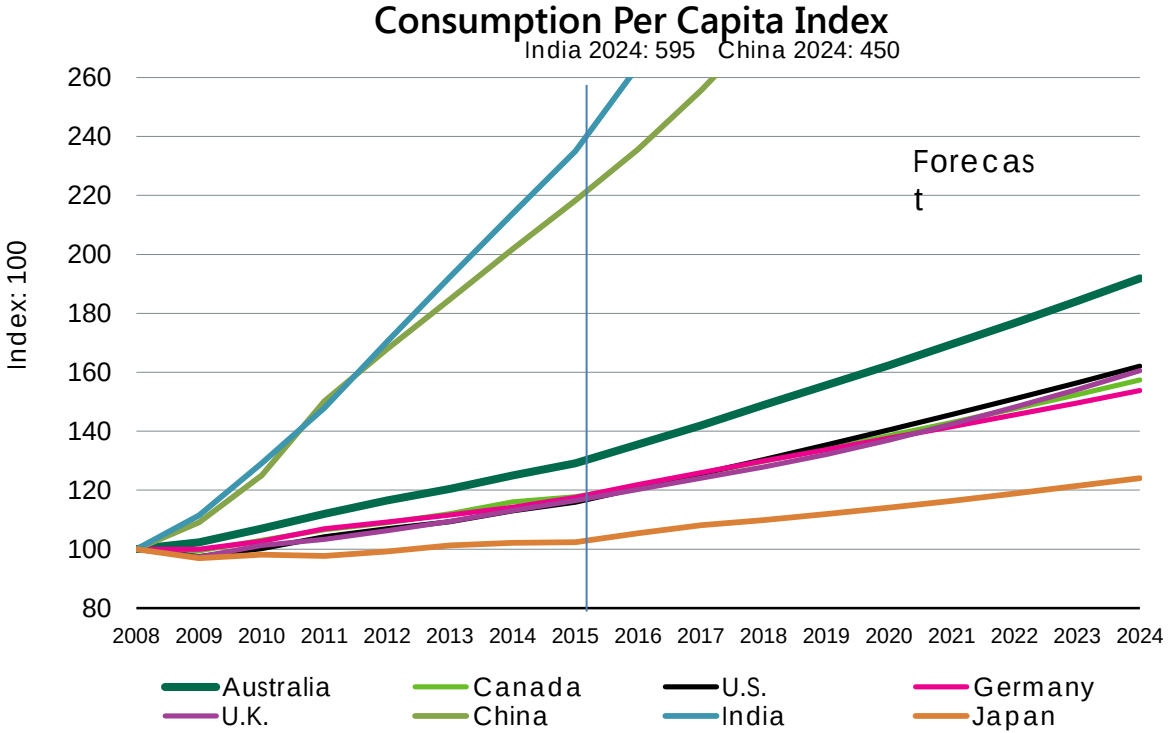
Hence, equities have corrected the most.

Property/equities look fair on this basis

Source: RBA, CBRE Research

RISING CONSUMPTION/INCOME PER CAPITA MADE AUSTRALIA ATTRACTIVE TO BUSINESS AS WELL

Strong relative performance…

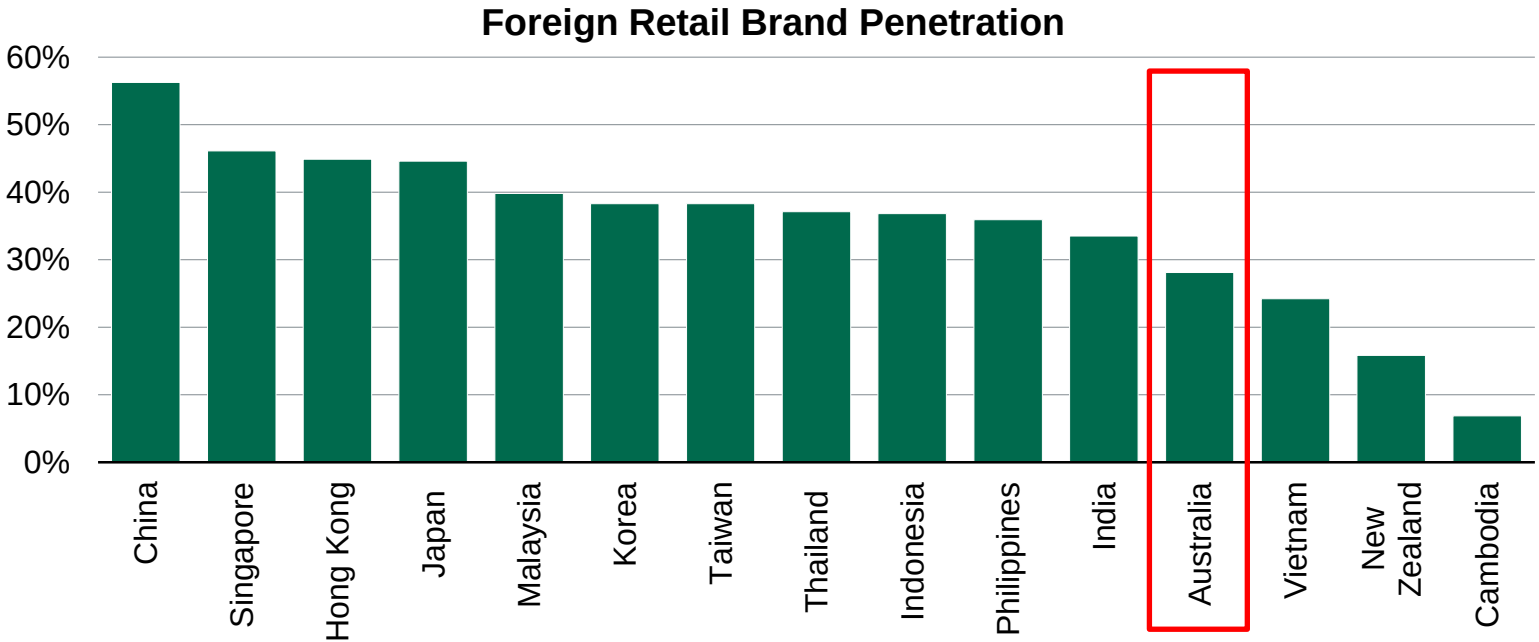


- Australia's **population growth of 1.7% over last decade** - 0.6% Advanced world economies; 1.0% Asia-Pacific
- **Consumption per capita average growth of 4%** in last 10 years v 2-2.7% in US/Europe/UK
- Over 40 foreign brands opened retail stores in Australia in 2014 (and 11in 2015 to date)

Source: CBRE Research; Oxford Economics

MORE THAN JUST INVESTMENT CAPITAL – FOREIGN RETAIL BRAND PENETRATION IS GROWING – STILL SOME WAY TO GO

…retailers diversifying globally



*Number of foreign retailers operating in a country as identified by CBRE divided by total foreign retailers in APAC region

Source: CBRE Research, August 2015

OFFSHORE INVESTORS CAN SOMETIMES HAVE MISPERCEPTIONS AS WELL

"Australian industrial is underperforming because motor vehicle manufacturing is being shutdown"

Myth ?: Fails to see that Motor Vehicle manufacturing represents just 5% of manufacturing (itself only 7% of the economy) or that 85% of vehicles consumed are already imported

"Housing bubble"

Myth?: Rising levels of building activity, high price to income ratio, prices haven't fallen like they did in the US/Europe - in some cases these headlines miss the fundamentals of vacancy and rent.

"Mining bust"

Myth?: Term used loosely, without focus on the subtle difference between an "investment" boom and a "production" boom; often the regional concentration of this activity isn't well understood.

OFFSHORE INVESTMENT INTO RESIDENTIAL REAL ESTATE

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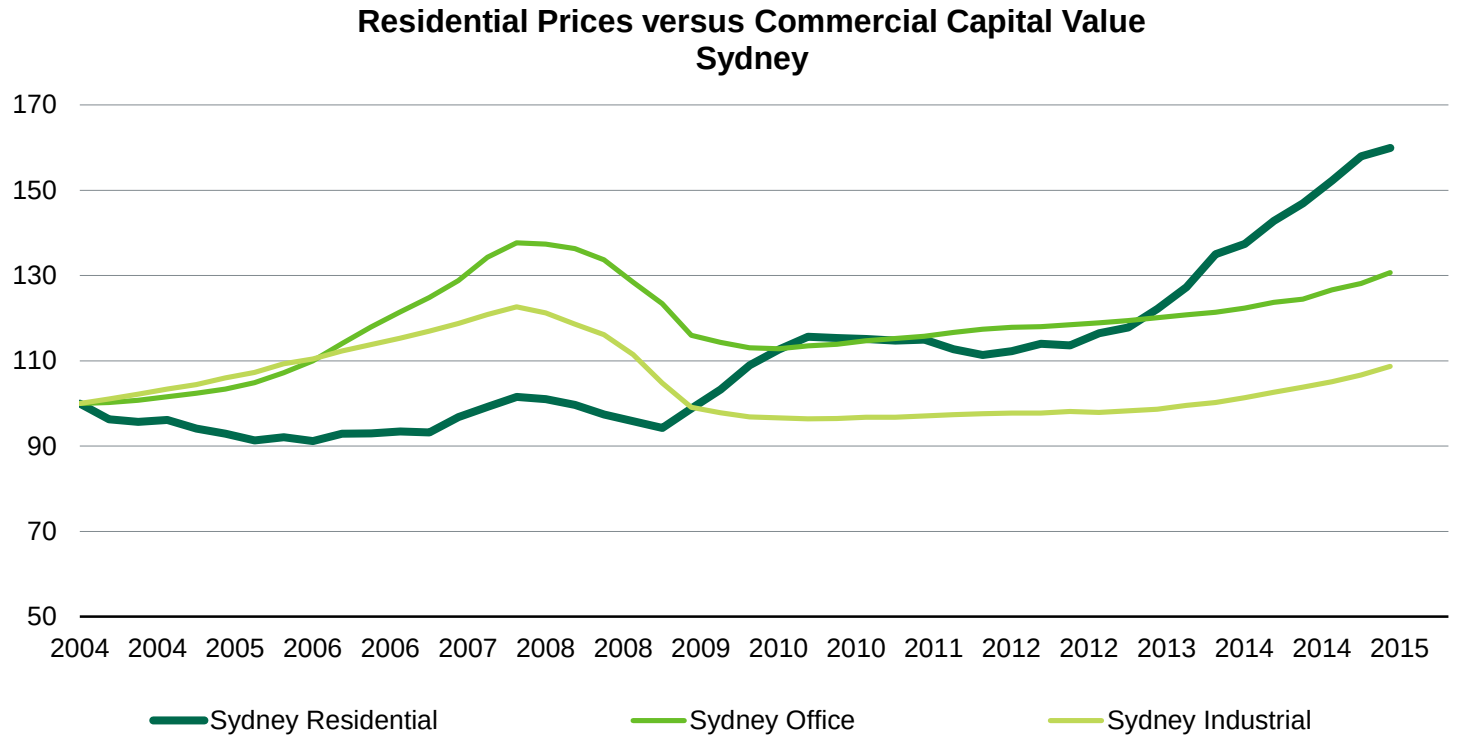
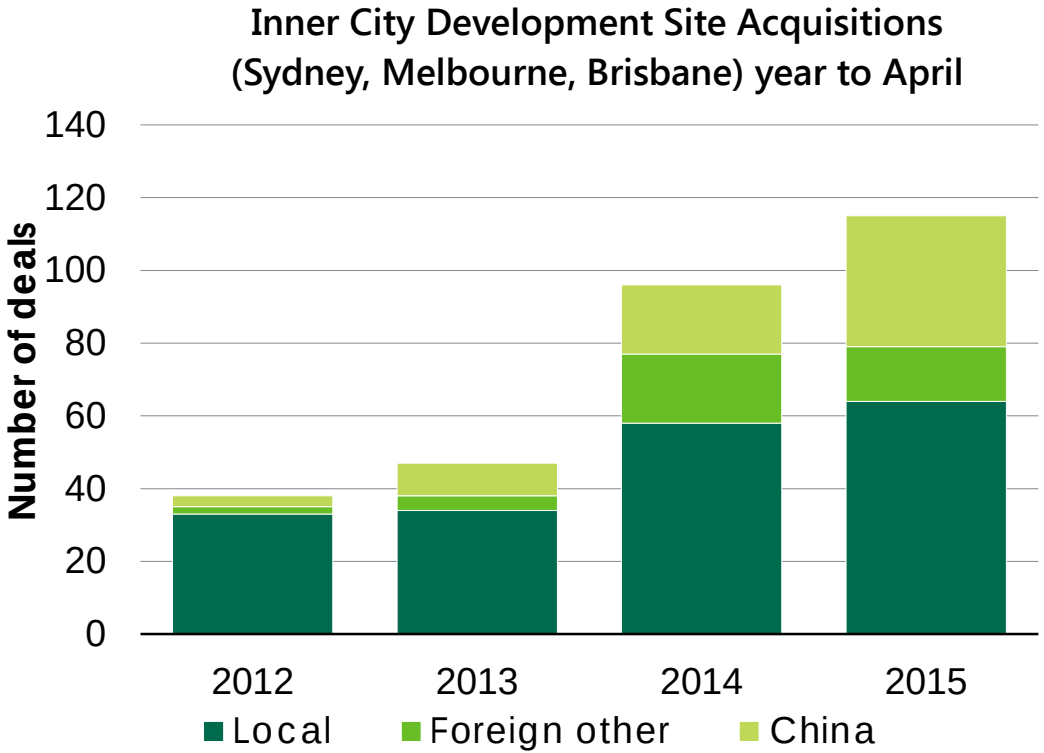
RISING RESIDENTIAL VALUE RELATIVE TO COMMERCIAL APPEARS TO BE DRIVING DEVELOPMENT AND CHANGE OF USE IN SOME MARKETS



Source: CBRE Research, ABS

FOREIGN INVESTORS ARE PURSUING THESE DEVELOPMENT OPPORTUNITIES



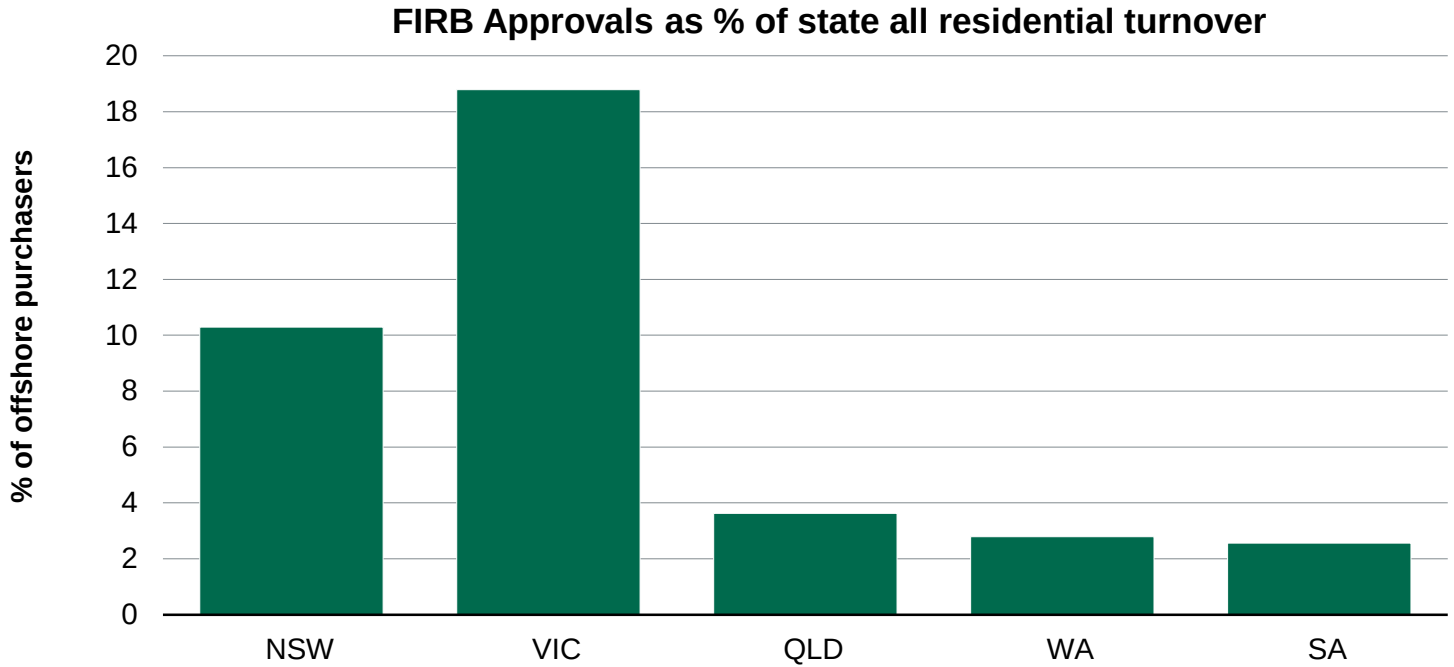
Comprising:

- Sydney (37) - average site price $65m
- Melbourne (52) - average site price $20m
- Brisbane (26) - average site price $20m

Source: Real Capital Analytics; CBRE

FOREIGN INVESTMENT IN NEWLY BUILT DWELLINGS HAS RISEN

…the most significant market for foreign purchase activity is Melbourne

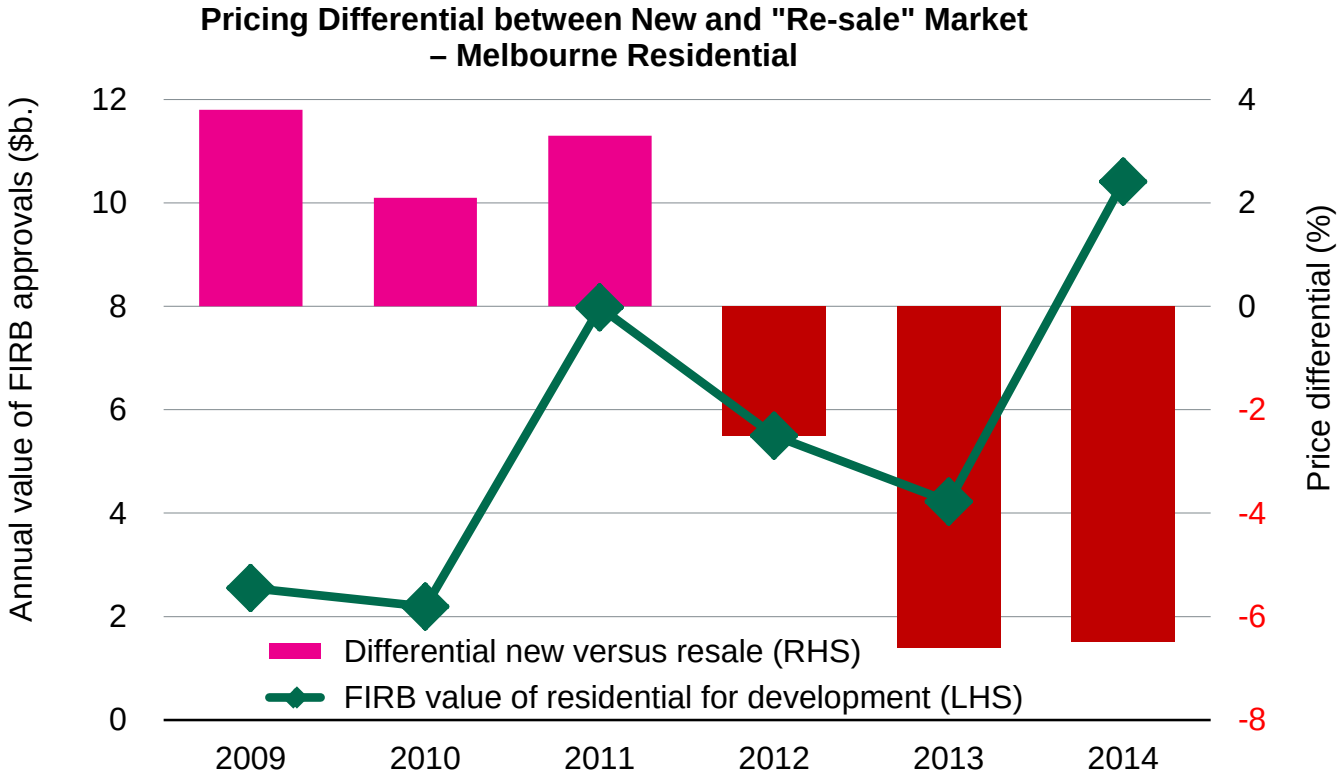


Source: CBRE Research; RP Data; City of Melbourne Council, 2014.

IMPACT OF FOREIGN INVESTORS ? PRICING GAP BETWEEN NEWLY BUILT RESIDENTIAL AND "RE-SALE" MARKET

Excerpt from recent CBRE Research Viewpoint, Aug 2015

"Foreign investment driving two tiered residential market"



Source: CBRE Research; RP Data City of Melbourne Council, 2014.

CROSS BORDER CAPITAL FLOWS OUTLOOK AND IMPLICATIONS

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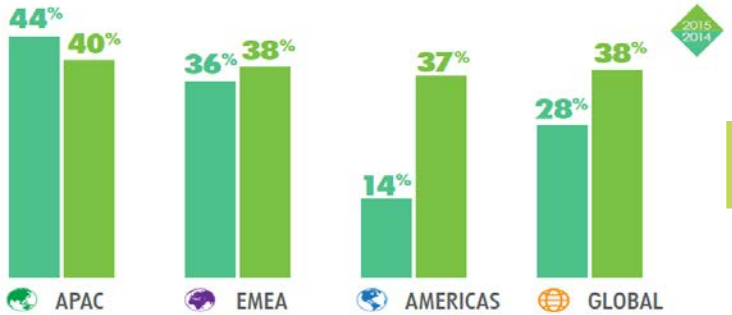
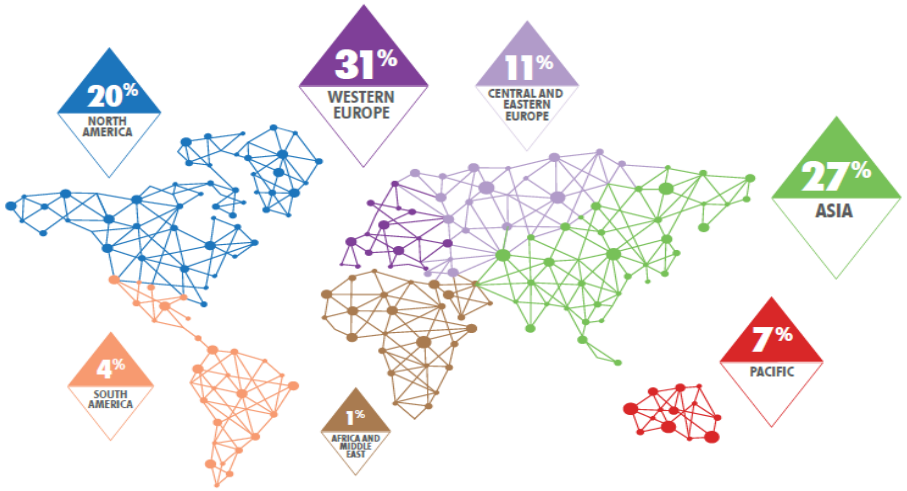
INTENTION TO INVEST ACROSS BORDERS HAS RISEN – AUSTRALIA ATTRACTING A LARGE SHARE

Cross–region investment intention by origin

% of survey respondents



Cross–region investment - preferred destination



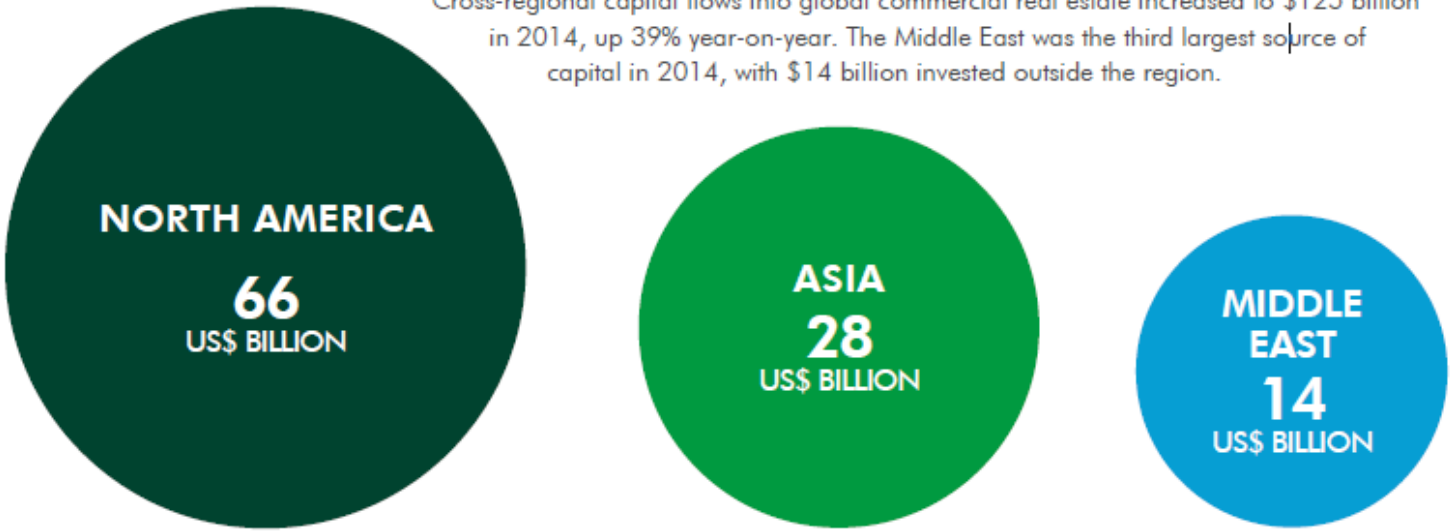
Source: CBRE Global Investor Intentions Survey 2015, % of survey respondents

WHERE IS THE CAPITAL ? FUNDING SOURCES FROM ASIA AND THE MIDDLE EAST ARE GROWING

Excerpt from CBRE Research " In and Out – Middle East" August 2015

FIGURE 3: GLOBALISATION OF INVESTMENT MARKET

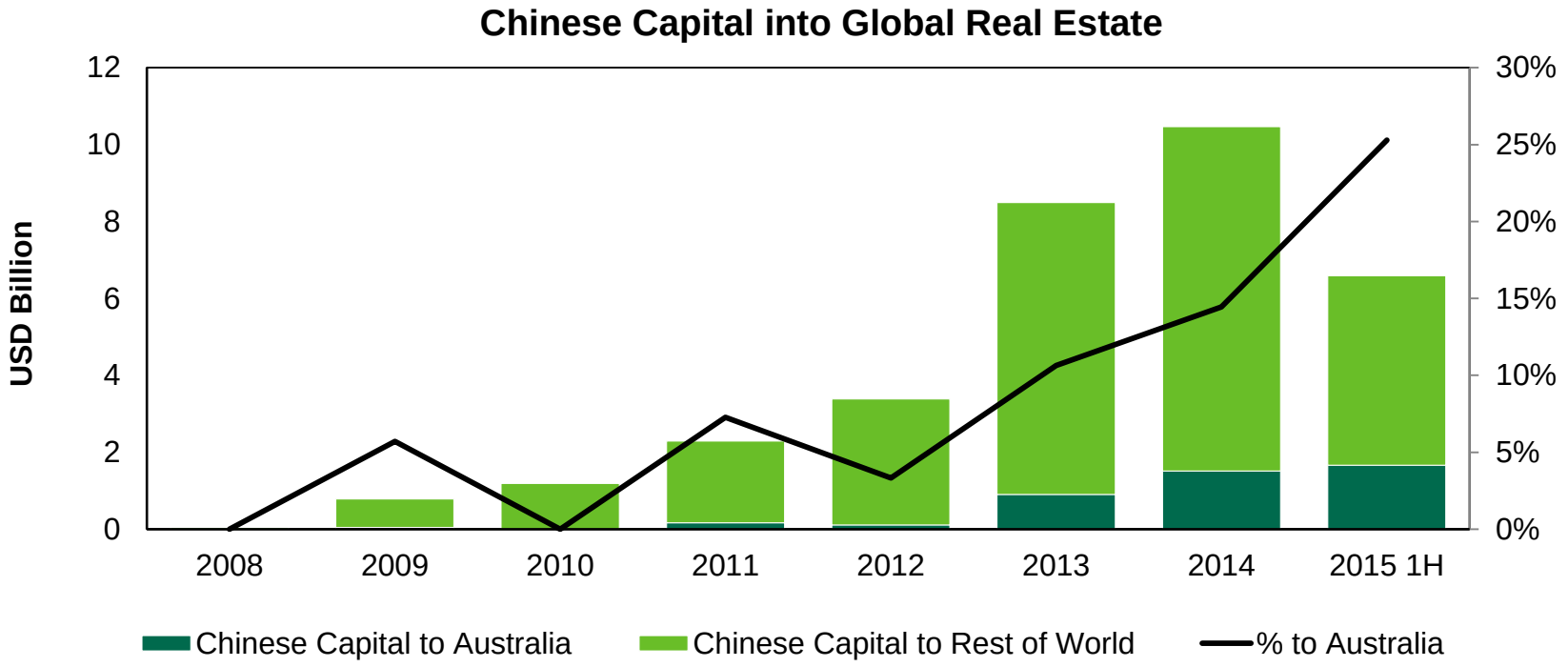
Cross-regional capital flows into global commercial real estate increased to $125 billion in 2014, up 39% year-on-year. The Middle East was the third largest source of capital in 2014, with $14 billion invested outside the region.



Source: CBRE Research, Real Capital Analytics

CHINESE CAPITAL FLOWING INTO GLOBAL REAL ESTATE MARKETS HAS ALMOST TRIPLED SINCE 2012

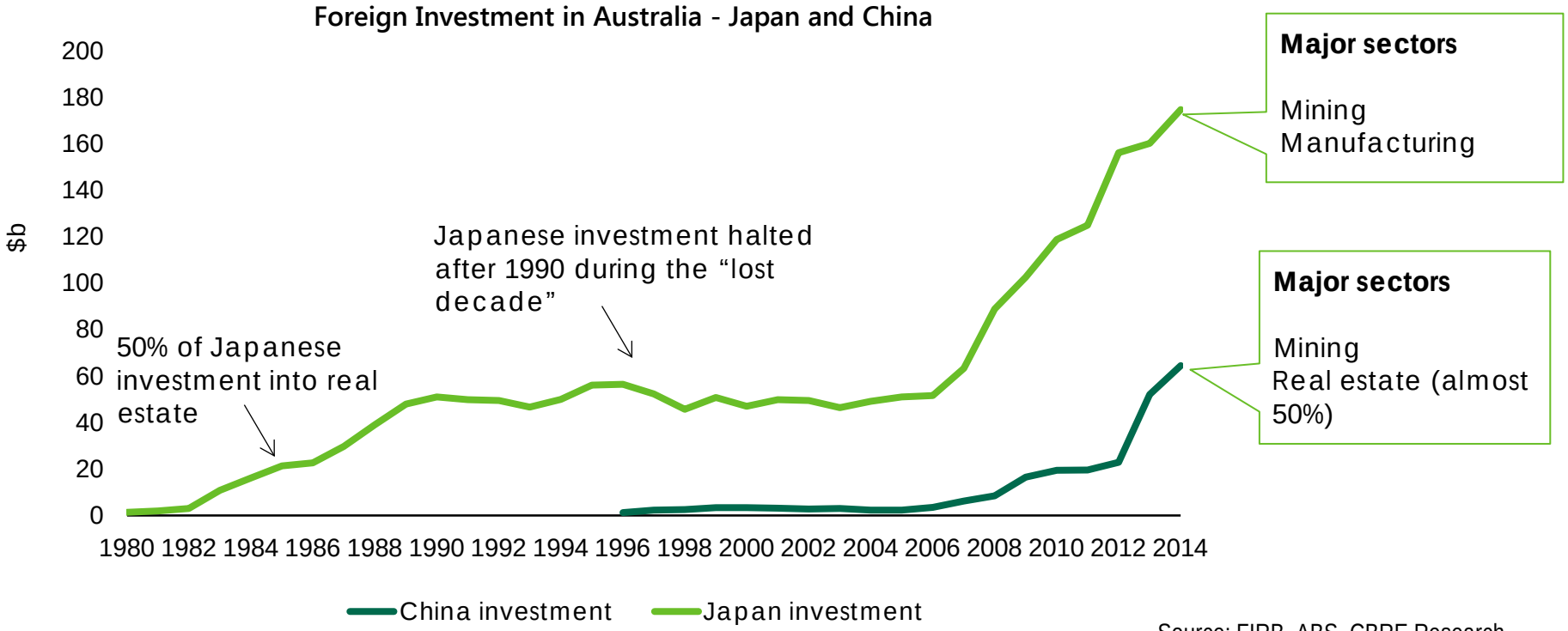
In 1H 2015, Australia attracted over 25% of China's real estate investment dollar



Source: CBRE Research

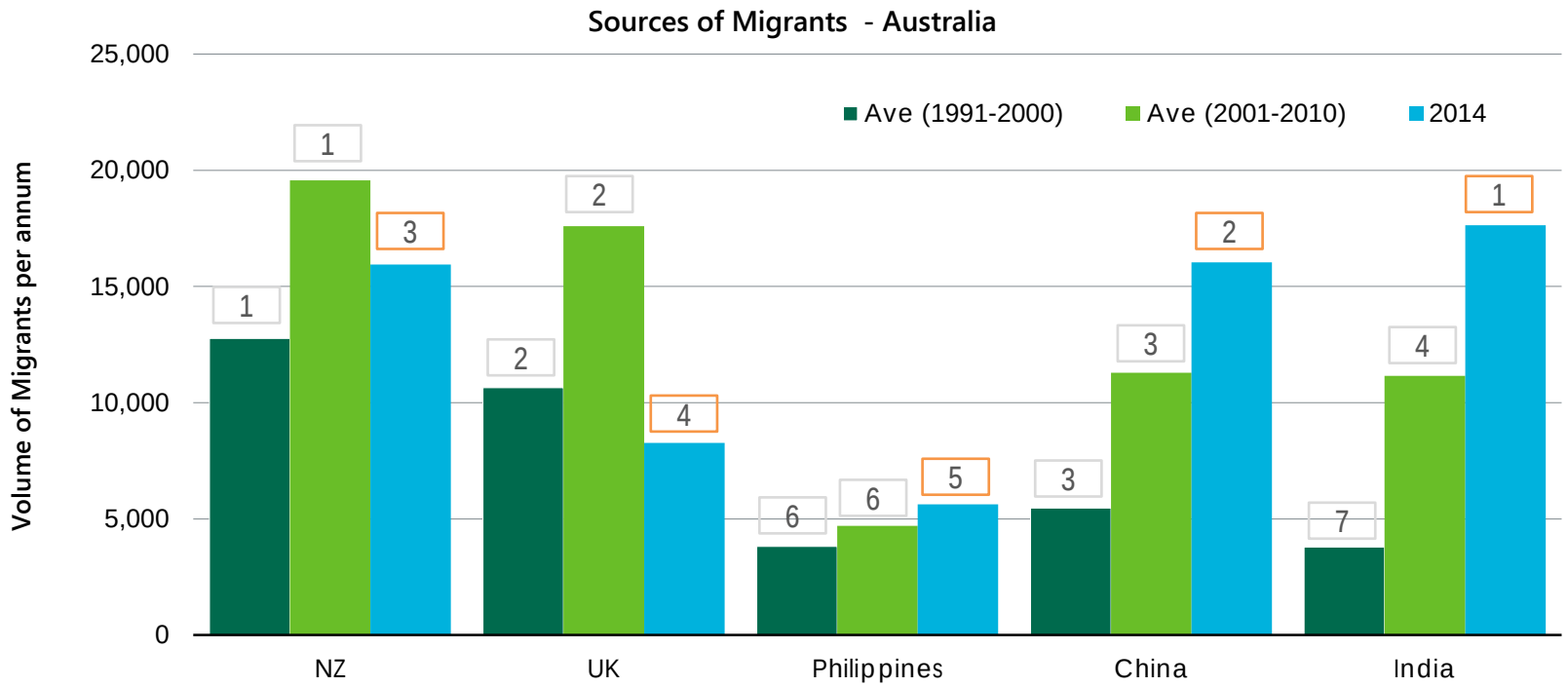
CHINESE ONLY AT THE START OF INVESTMENT DIVERSIFICATION

…repeat of Japan looks less likely ?



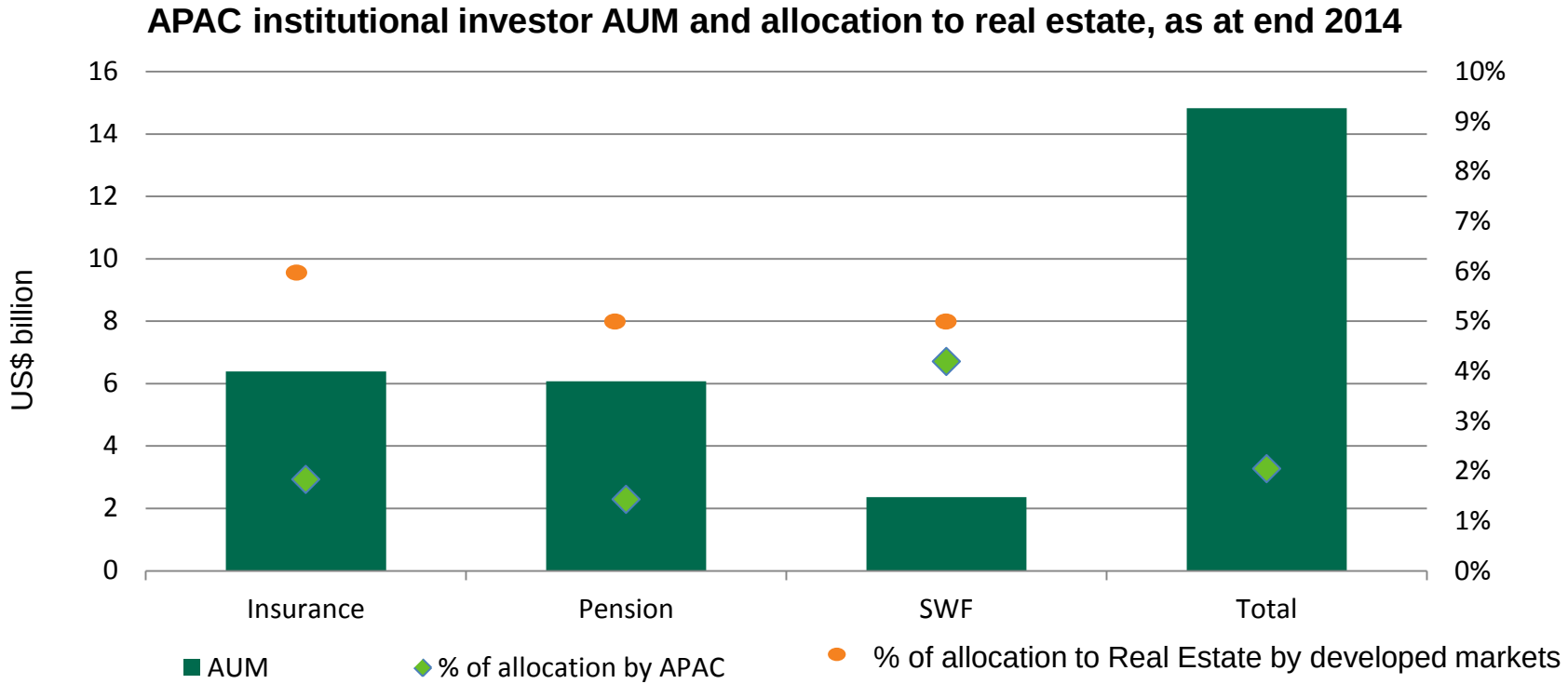
Source: FIRB, ABS, CBRE Research

CHINESE CAPITAL – BACKED BY PEOPLE (AND BI-LATERAL TRADE)!



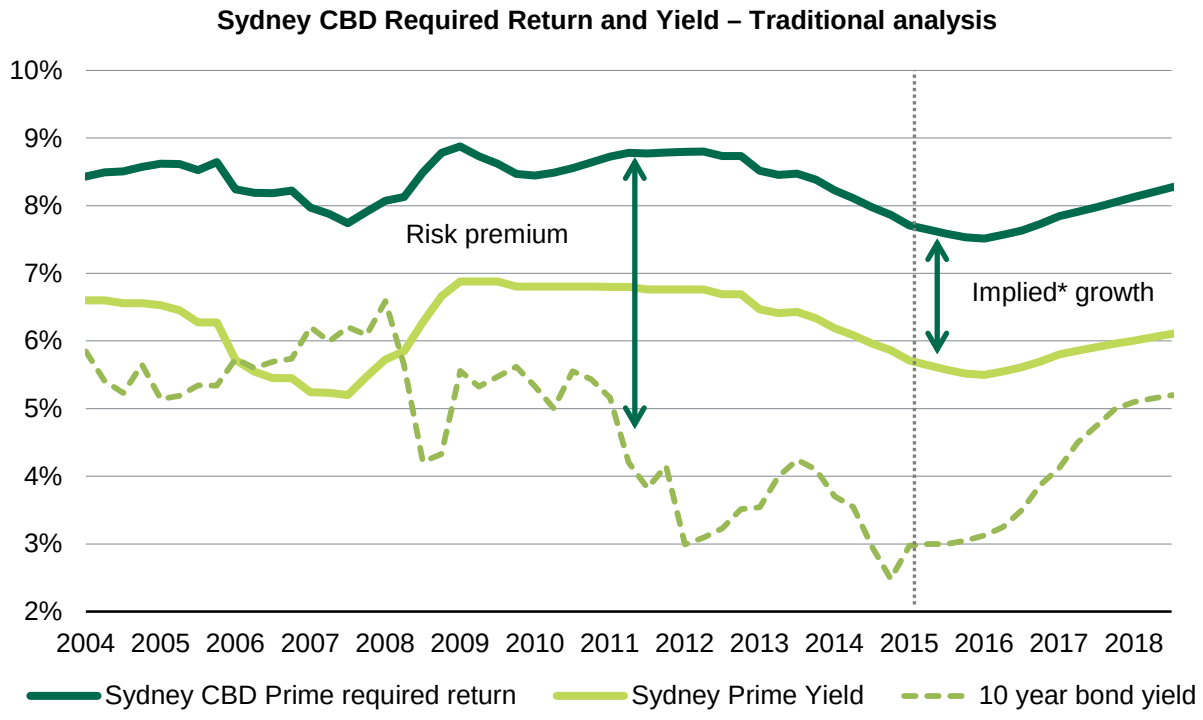
Source: ABS, CBRE Research

MORE CAPITAL EXPECTED TO BE ALLOCATED TO REAL ESTATE WHICH IS UNDERWEIGHT AMONGST APAC INVESTOR GROUPS



Source: Preqin, OECD, SWF Institute, and Various Central Banks and Insurance Associations, ANREV - The increasing importance of Real Estate in Asian pension funds; CBRE – Insurance Paper

FOREIGN INVESTMENT ADDS AN UNKNOWN TO TRADITIONAL ANALYSES OF “DOMESTIC REQUIRED RETURNS”



Source: RBA, CBRE Research

*”Implied” growth is derived from the difference between IRR and observed market yields

As foreign investors have a greater influence on the market; we may need to look beyond purely domestic fundamentals

Implication: Creates a little less certainty about predicting the required return as need to factor in international expectation for return

KEY POINTS IN CONCLUSION

1. Globalisation – Australia receiving a share of rising cross border activity

2. Relative performance of Australian economy and markets

- **more cyclical** - Australia currently receiving an above weight share of investment interest

3. New capital sources are growing and diversifying

- Australian funds also look offshore
- Implication for local investment returns

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8th September 2015

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