RESEARCH BRIEFING

GLOBAL "CURRENCY WARS"

WILL A STRENGTHENING AUSTRALIAN DOLLAR SIGNAL A SLOWDOWN IN OVERSEAS INVESTMENT INTO LOCAL PROPERTY MARKETS?

The commodity price recovery and a softening USD has strengthened the AUD, making investment by overseas groups in the short term appear relatively more expensive, however, considerable buying opportunities and exchange rate discounts still exist

The Australian economy appears to have unexpectedly survived the economic volatility that we reported in February, and appears to be performing better than many had expected. The ABS recently (2nd March) reported an above market consensus GDP growth rate of 3% for the 2015 calendar year, and the March NAB Business Survey showed a notable improvement in business conditions jumping to +12 points from +8 points in February, to its equal highest value since early 2008, reflecting above-average conditions in most industries. The Survey suggests that "conditions remain particularly robust in service based industries, which are leading the way in what has proven to be a resilient recovery in the non-mining economy, and that Australia is withstanding the uncertainty offshore"

Surprisingly, strong Australian economic data has driven the Australian Dollar higher, recovering some of its lost ground against major global currencies (see Figure 1), albeit coinciding with a recent rise in commodity prices, such as iron ore and oil. A falling US dollar and an increased demand in global investors purchasing Australian Government Bonds (which require the buying of Australian Dollars), has, as a response, pushed investors into favouring safer currencies such as the AUD. In addition, the threat of Britain exiting the EU, and its potential break-up, has also pushed investors into a flight to safety.

FIGURE 1

Exchange Rate Movements Against the Australian Dollar

March 2013—March 2016

Source: Knight Frank Research, RBA

Over the past three years, an extended period of Australian Dollar depreciation raised the attraction of Australian real estate to overseas investors, as opportunities to purchase were presented with significant exchange rate discounts. This trend continued into 2015 whereby for example offshore investors accounted for 52% of total Australian office sales turnover , with a clear division in their focus with these buyers accounting for 60% of CBD office transactions.

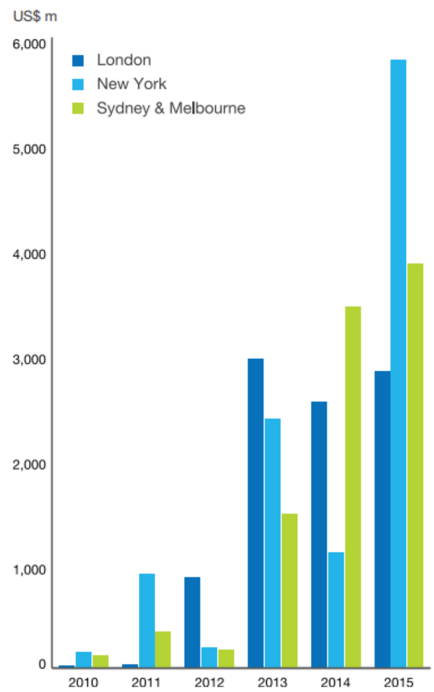
However, one of the biggest recent swings in exchange rate has been against the Chinese Renminbi (CNY—see Figure 1). Over the past six months (to end of March 2016) the AUD has appreciated 11% against the CNY, albeit still remains 24% lower, and at a significant discount to three years prior. It is no secret that Chinese groups favour, and are the biggest investors in Australian real estate, which was reconfirmed in the recently released *Knight Frank China Outbound Real Estate Investment report: New Waves, New Destinations*.

The report highlighted that in 2015, the global and Australian markets continued to see rapid growth in real estate investment from China, with Sydney and Melbourne remaining a key investor focus. The traditional Australian gateway cities were still the preferred destinations for Chinese investment, attracting an increased total of US$3.8 billion of Chinese investment, outperformed only by New York (US$5.78 billion), which became the top investment destination in 2015 (see Figure 2).

FIGURE 2

Chinese Real Estate Investment in Gateway Cities

2010 to 2015



Source: Knight Frank Research, RCA

Irrespective of a strengthening AUD against the Chinese Renminbi, Chinese developers have been particularly aggressive, with seven of the top ten players active in Australia, along with a drove of smaller developers. The China-Australia Free Trade Agreement which was officially signed in June 2015, raised the investment threshold for Chinese investors having to go to the Foreign Investment Review Board (FIRB) from AUD$248 million to AUD$1.07 billion.

In addition, warm bilateral relations and Chinese governmental policy encouragement, such as the Qualified Domestic Individual Investor or QDII schemes, which allow more funds from individuals and institutions to be invested overseas, are expected to provide greater access for Chinese investment in the Australian property market, even in a period of stronger, exchange rate effected, pricing.

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For more information or for advice on any other aspect of the Australian property market including alternative asset classes, such as student accommodation, serviced apartments or hotels, please contact Matt Whitby, Paul Savitz or Luke Crawford.

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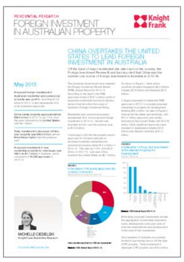

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