



Chinese investors investment strategies in the Australian residential property market

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ABSTRACT

Active participation by foreign investors in Australian residential property market is common subsequent to the Global Financial Crisis 2008. Many residential properties in the Australian capital cities were purchased by overseas buyers. An estimated 18% of new dwellings in Sydney and 14% in Melbourne were purchased by foreigners in 2014. Simultaneously, house prices rose by 6.0% in 2014 and 5.0% in 2015 in the Australian capital cities. The focus of this research is to uncover the emerging determinants for the Australian residential property market. Cross border semi-structured interviews were conducted in Shanghai (China), the first such undertaken in Australia. Some unique investment strategies of the private investors from China emphasised on non-capitalist factors, such as early education and residential tourism, were identified along with some insights on the Chinese government policies that have incentivised the cross border investments from China. It is believed that understanding these investment strategies will assist policy makers to effectively manage the overheated Australian residential property market without compromising the steady flow of Foreign Real Estate Investment.

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1. Introduction

1.1. *The Australian residential property market*

Foreign investors have been active in the Australian residential property market subsequent to the Global Financial Crisis 2008 (GFC 2008). Approximately 16% of the Australian new housing markets sales went to foreign purchases in 2014 (NAB, 2015). A National Australia Bank survey showed that house prices in both Sydney and Melbourne reached the record high levels in the first half of 2014. Some reports claimed that house prices had moved beyond the reach of the majority local buyers especially in desirable locations (AFP, 2014; Birrell & Healy, 2013; Economics, 2014). Chinese investors and newly arrived migrants were singled out as the major Foreign Real Estate Investment (FREI) buyers in Australia and they are expected to invest approximately AUD 44 billion into the Australian residential real estate market by 2021 (Janda, 2014). Figure 1 shows the Australian Bureau of Statistics (ABS) Australian housing index for the period 2007–2015:

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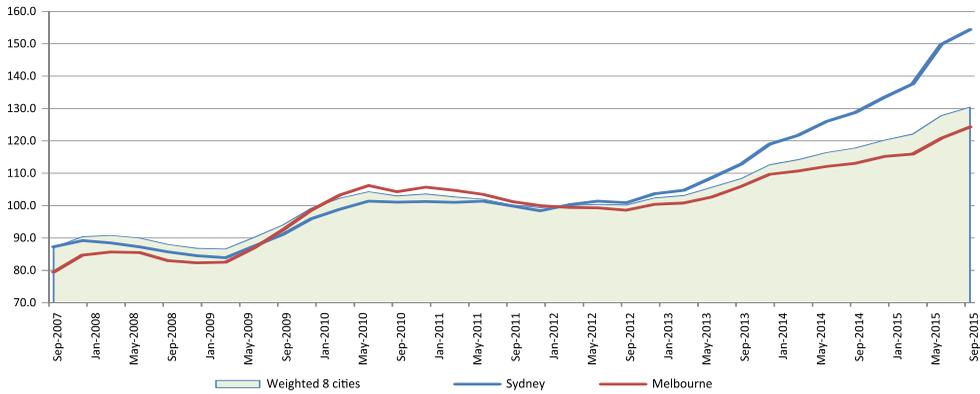


Figure 1. Australia housing price index 2007–2015. Source: ABS, 2015.

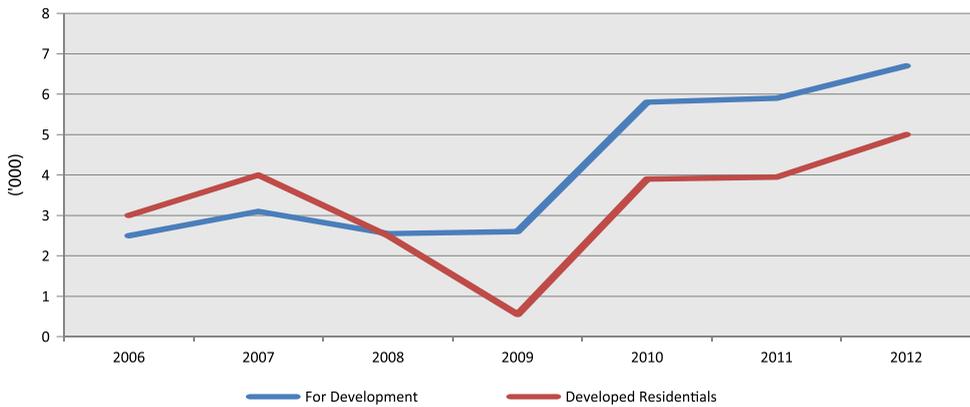


Figure 2. Residential real estate approvals for foreign investors. Source: FIRB 2014.

Figure 1 shows that from 2007 to 2015, residential property prices in Melbourne, Sydney and the weighted average of eight Australian capital cities grew 56, 77 and 50%, respectively. Figure 2 shows the trend of residential real estate approvals for foreign investors in Australia from 2006 to 2012.

Figures 1 and 2 show the significant increase in both Australian house prices and the foreign interest in the residential property market. In 2014, the Australian government, under the auspices of the Australian Foreign Investment Review Board (FIRB), investigated Australia’s foreign investment policy related to residential real estate. It was believed that this was a result of heightened media interest in the surge in house prices in Australian major cities, such as Sydney and Melbourne (Economics, 2014). The inquiry recommended the need for more research into the drivers of foreign investment in the Australian residential property market.

The aim of this study is to explore the emerging determinants that attracted offshore purchases in Melbourne residential properties. This study is expected to yield empirical evidence that will assist policy-makers in making informed decisions to promote foreign investments whilst maintaining the affordability of housing market in Australia. The result

of this study is believed to yield findings that can assist the researcher, property market stakeholders and investors in the evaluation of foreign investments in the Australian residential housing market.

2. Literature review

2.1. The growth of Asia Pacific private wealth and global cross-border investment

Foreign direct investment (FDI) in real estate markets has experienced significant growth in many countries (UNCTAD, 2011). Increased cross-border activity in the real estate market was most evident in China, where the real estate market increased to approximately 50% of the total FDI in China in 2012. In India, FDI real estate ranked second only to the computer software industry in 2007 (Economist, 2012). Evidently, cross-border FREI is on a rise with globalisation (D'Arcy, 2009; Topintzi, Chin, & Hobbs, 2008; UNCTAD, 2009, 2013).

Wilson (2008) projected that the growth of the global emerging middle class or the Expanding Middle (EM) is set to shift the world economy dynamic and consumption pattern:

- (i) The rise of EM will shift the global consumption pattern moving away from rich or developed countries to the middle-income economies.
- (ii) By 2050, the middle-income economies will be responsible for close to 60% of the world's GDP.
- (iii) Massive global middle-class growth is anticipated to shape new patterns in spending, resource use, environmental and political pressures.

Source: Goldman Sachs 2008

The rise of the EM can drive a broad range of economic, social and political revolutions to a scale not seen since the formation of middle classes in developed countries during the second half of the 19th century. Numerous empirical studies had made similar predictions on the growth of middle class, see Kharas (2010), Wilson (2008) and Ernst & Young (2013). The observation from the OECD appears consistent with these findings as illustrated in Figure 3 below:

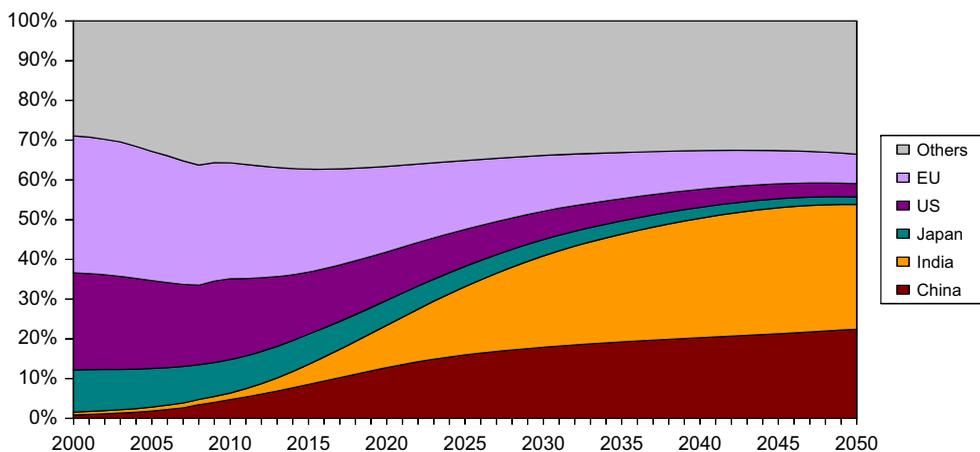


Figure 3. The emerging global middle class. Source: OECD 2010.

A significant proportion of the new Asian middle class is expected to be at the upper end of the income bracket and will boast impressive spending power. The steep increase in Asian demand, particularly in China and India, and the replacement of US demand is clearly seen as an accelerated trend in the coming decade (Kharas, 2010). Subsequent to the GFC 2008, a trend emerged that Sovereign Wealth Funds (SWF), wealth management companies, private bankers and wealthy families moved in to cross-border property market activities that corporate bankers deserted. The rising private wealth in Asia-Pacific was believed to be the driver for increase in the cross border real estate investment activities seeking higher return and diversification (KPMG, 2014; Savills, 2014).

2.2. Chinese investment in the Australian residential property market

The choices of overseas investment from China Outward FDI are not limited to Australia. According to Ernst & Young China (2015), Chinese FDI went into 6128 companies across 156 countries in 2014. Figure 4 shows China Outward FDI top destinations in 2009, 2011 and 2013:

Of the total USD 116 billion outward FDI from China in 2013, USD82.1 billion went to Hong Kong and places like Virgin Island/Cayman Island. Only approximately USD33.9 billion went to the rest of the world. Australia ranked the second highest beneficiary among the FDI destinations, after United States, to receive more than USD 3.5 billion of China outward FDI in 2013. With Australia being the favourite destination for Chinese money, China's investments in Australian fixed assets and real estate contributed more than 10% of the total China Outward FDI in 2013. In reality, the total China Outward FDI to Australia may be larger if not for the exploitation by some investors on loopholes to move money offshore from China (Ernst & Young China, 2015). It was estimated that the Chinese were likely to invest approximately AUD 44 billion into Australian residential property market over the next seven years (Janda, 2014), exceeding AUD 5 billion a year (Economics, 2014).

FIRB (2015) reported that the approved investment from China was AUD 46.6 billion, the largest overseas investment approved in Australia in 2014–2015. Figure 5 shows the four major foreign investment countries in Australia for the same period:

Figure 5 illustrates that beside the AUD 46.6 billion from China, the USA had AUD 25.1 billion of approved investment in 2014–2015, Singapore AUD 10.0 billion and Japan AUD 8.7 billion.

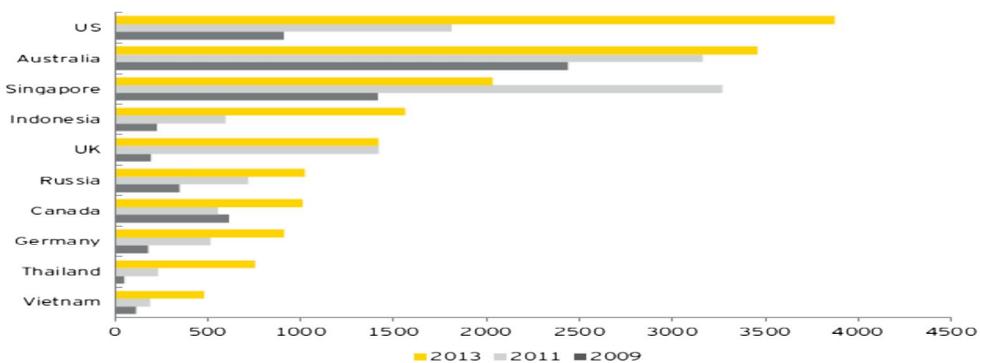


Figure 4. China outward FDI top destinations (USD million). Source: Ministry of Commerce China; adapted by Ernst & Young China.

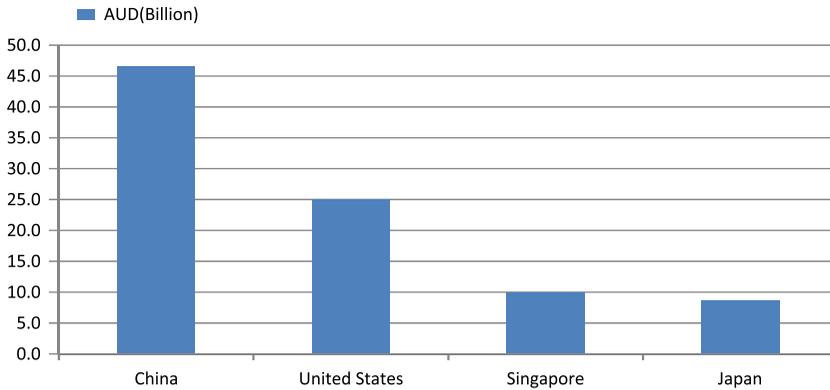


Figure 5. FIRB approvals for proposed investment in Australia by country. Source: FIRB, 2015.

2.3. Foreign investment traditional determinants

The main pulling factors cited for the top foreign investment destinations include stable political and social environments, sound legal and regulatory systems, successful market system, and leading competence in science and technology and education. The drivers cited by Schiesinger (2015) on Chinese investors buying into Australian residential property market were better investment fundamentals, the opportunity to acquire freehold property, higher yields, more stable economic environment and the ability to borrow up to 80% in Australia. The two other main reasons were the availability of education for children to study in Australia, which forms part of a future plan to migrate to Australia due to better living conditions (KPMG, 2014). Other major factors that drove the housing market demand in Australia include:

- (i) The population growth attributable by an increased level of skilled migrant intake. The recent migrants were equity strong and purchased residential properties sooner than many unskilled migrants.
- (ii) Competition with mining and infrastructure for skilled labour and materials had limited the supply of residential properties.
- (iii) Higher number of education visas granted.
- (iv) Real estate has a proven track record for self-managed super funds.

Source: TSMH, 2014

In the midst of the dynamic FREI activities in the Australian residential property market, the TSMH (2014) highlighted that normal investment theory and the law of demand and supply was perceived inadequate to explain the reasons of offshore investors' preference in Australian residential properties over other parts of the world. There is an apparent lack of studies assessing the recent real estate investment decision models from a different perspective based on the emergence of new economic fundamentals subsequent to GFC 2008. More extensive research into factors causing the surge of housing demand in Australian cities has become desirable.

2.4. Residential Tourism (RT) – non-traditional determinant

In an effort to fill the gap of these evolving factors attributed to the latest surge in housing demands in Australian cities, this study explored an existing European tourism migration trend that closely resembled a new social development in Australia. RT is a term commonly used by Spanish real estate agents, media, academics and officials when referring to the coexistence of property ownership and the short-to-medium term residencies of the Northern Europeans in Spanish tourist areas. Residential Tourist (RTs) definitions distinguish them as an affluent group that treats tourism as a way of life and constructing fluid, leisure lifestyles between places of residence. They are also being characterised as tourists who ostensibly try to settle, although they still remain in some ways outside or above the community they have moved to (O'Reilly, 2007; Rodríguez & Bustillo, 2010). According to O'Reilly (2007), it had been difficult to disentangle migration and tourism activities in Europe.

Subsequent to the GFC 2008, a similar social development was observed in the Asia-Pacific region. Wealthy individuals from Asia are playing a major role in cross-border residential property transactions, which observe Chinese buyers purchasing properties for their offspring and to secure lifestyle improvement in world major cities (Savills, 2014). This unique interaction between tourism and migration in Europe possesses a direct resemblance to the Australian tourism-migration trend in recent times. Changes to living standards among all upper middle class and High Net Worth Individuals (HNWIs) may influence immigration and tourism in both the source country and the destination. The rising living standards and the emergence of an affluent middle class in the newly industrialising countries of Northeast Asia have led to an increased number of those who are able to afford visiting Australia as tourists or taking advantage of the skilled migration category for the purpose of emigration (Dwyer, Forsyth, King, & Seetaram, 2010; Dwyer, Forsyth, Burnley, & Murphy, 1993; King, 1994; Williams & Hall, 2002). A model proposed by Williams and Hall (2002) depicted tourism activities as stimulus for migration and migration as an inducement to tourism flows. Such relationships were explored in the context of geographical extension of friendship, ethnic and kinship networks. Dwyer et al. (1993) suggested that permanent migration and tourism were linked and that this link operated in both directions. Visiting Friends and Relative (VFR) tourism is an important element of what they termed "chain migration". These links were analysed in the Australian context in a study commissioned by the Bureau of Immigration and Population Research, using immigration and tourism data as its key information source (Dwyer et al., 1993). Boyne, Carswell, and Hall (2002) argued that migration was a prerequisite for VFR tourism.

Towards mid-2015, The Economist named Melbourne as the most liveable city for the fifth consecutive year (Lucas, 2015). The Melbourne Lord Mayor, Robert Doyle, proclaimed that the latest ranking provided a very important sale point for Melbourne in a very competitive tourism and education market. Australia was expected to issue more than five million visas in 2015, something not seen since the Second World War, with a significant jump in the visa issuance to international students, tourists and workers on short-term visas (Garnaut, 2015).

2.5. Education

A review of empirical evidences showed that many studies established that education, specifically tertiary education, is a key driver for the success of the immigration programme

in Australia. A significant proportion of these students contemplated migration at the conclusion of their studies, and purchasing residential properties was a natural path for these migrants. (Dwyer et al., 2010; Hawthorne, 2010; Pascoe, 2015; Verbik & Lasanowski, 2007).

As immigration activities increased in scale, migration to and from Australia had become increasingly complex. There were evidences that migration had geared towards greater diversity, with improved flows of skilled migrants, along with refugees, students and short term employment seekers or transilient migrants (Coles & Timothy, 2004). The emerging trend of private wealth from Asia Pacific has further introduced a new dimension to this complexity. These diverse migrant movements, specifically the increased tendency of graduates taking up permanent residency status in Australia, had added to the complexity of various attributes contributing towards the inward migration to Australia. The unique characteristics of private wealth attributed to lifestyle, preservation of wealth and education for the next generations had introduced a new relationship between education and investment activities. Along with their intension of wealth preservation, many HNWIs, and/or the global middle class, had sent their children overseas for further education with the ultimate intention of migrating. It is believed that this distinct requirement had resulted in many of these individuals investing in the residential property markets, either for owner occupying or wealth preservation purposes. Although there was much deliberation about the relationship between education and migration activities, there was no specific study conducted on the correlation between education in Australia and residential properties performance in the context of private wealth investment activities in Australia.

3. Methodology

This study intends to focus on investigating factors that drive Asia Pacific's private wealth into the Melbourne residential property market, specifically the private wealth from China. This study is therefore an extension of the prior literature and makes allowance for emerging factors and determinants of FDI in the Australian real estate market. When combined with the existing set of variables, these emerging determinants subsequent to GFC 2008 potentially provides a better explanation on the recent phenomena of foreign investments in the Melbourne residential market.

3.1. The model

While research is able to determine the relationship of individual economic variables to house prices, it tends to neglect the fact that most factors interact simultaneously with varying intensity and at different time periods to house prices (Higgins & Reddy, 2010). This research utilises a research model providing a systematic platform for emerging determinants investigation. The three-market model illustrated by Higgins and Reddy (2010), which emphasised on the critical relationship between property, space and capital markets, constitutes the research platform for this study. Offshore elements and influences will be built into the research modelling to facilitate organised analysis on capitalist factors (for example: real estate transparency, financing cost, per capital income, rent growth) and non-capitalist factors (for example: education and tourism).

Following the review of various studies conducted specifically on FDI investments abroad, it is conclusive that the investigation on the source of FDI is equally, if not more, important in determining the factors affecting FDI in the host country. Moshirian and Pham (2000) explored determinants of US investments in real estate abroad based on the FDI model, by comparing FDI in real estate as a subset of FDI in general. Exchange rates, size of the share market, balance of payments, trade flows, cost of capital, and economic growth were identified as major “push factors” for investment in real estate abroad (Culem, 1988; Cushman, 1987; Frey, Schneider, & Pommerehne, 1985; Froot, Perold, & Stein, 1991; Goldberg & Johnson, 1990; Nigh, Cho, & Krishnan, 1986). Based on the essential fundamentals of the Higgins and Reddy (2010) model, Figure 6 illustrates the proposed “Push & Pull” model accomodating an additional assessment platform accomodating the impacts on Space and Financial markets from the overseas country’s drivers:

Figure 6 illustrates an added component of “Overseas Government Policies” (from which the offshore investors originated) has been incorporated in the “Push & Pull” model, reflecting its weighty impacts and influences over the space and capital markets of the host country. It is believed that the resultant economic conditions of offshore government policies have meaningful influence over the foreign investment outflow from the source country, and emerges as having impact over the Space and Capital market in the host country. Importantly, property market supply conditions are very much associated with the policy implementation of local government agencies and thus, not closely related to offshore government policies. The “Push & Pull” model provides the fundamental platform of this research for the assessment for various determinants of foreign investments into the Melbourne residential property market.

3.2. Qualitative research – semi-structured interview

This research uses a qualitative assessment approach with a semi-structured interviews technique selected for the study. It is the aim of any qualitative research interview to incorporate a range of approaches into the interviewing process and to see the research topic from the perspective of the interviewee, specifically to understand how and why he or she arrives at a particular perspective (King, 1994; Teddlie & Yu, 2007). The evaluation of new determinants in the Melbourne residential property market can be construed through feedback and discussions with the relevant stakeholders. King (1994) and Teddlie and Tashakkori (2009) affirmed that a questionnaire can be qualitative (open-ended/unstructured), quantitative (closed-ended/structured) or mixed methods (semi-structured). This method allows for

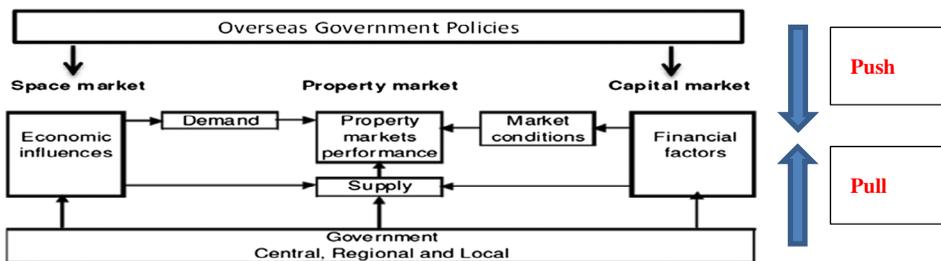


Figure 6. The “Push & Pull” model.

a focus on a particular unit of analysis rather than a collection of analysis of data (Willig, 2013; Yin, 2013).

The qualitative semi-structured interview in this study has the following aims:

- (i) To identify factors, referring to the Space and Capital markets, influencing the overseas investors' decision on Australian residential property market
- (ii) To identify government policies and understand the rationale and extent of such government policies causing offshore investments in Australian residential property market
- (iii) To evaluate the impact of non-traditional factors on overseas investors decision-making.

Chinese property professionals will be targeted as interviewees for the study and the participants comprise a wide range of cross sectional experts from the China property market. The selection of interviewees shall be based upon their involvement in the residential property industry and seniority in their respective organisation's decision-making process. Figure 7 illustrates the interview approaches adopted in this study to ensure adequate and strategic coverage of key stakeholders in the Chinese property industry:

Figure 7 demonstrates the interview plan for key stakeholders in China. Three key professional groups were identified as key stakeholders, comprising financial professionals, property agents and property reserchers. A minimum of one participant from each category was interviewed to ensure that a wide range of opinions and experiences were included in the data sources. Questionnaires, comprising eight interview questions, were formulated specifically as per Appendix 1. Codes have been assigned to each interviewee (Appendix 2) to ensure the responses were de-identified, thereby providing anonymity for the participants. These codes are used to report interview responses.

The interviews were undertaken in June 2015 at the interviewee's place of work, lasting between 30 and 60 min. The interview covered, government policies, information on foreign investors, property market conditions, tourist arrival and international student enrolments information. In this research, data collected from semi-structured interviews will be used to determine the emerging trends in the Australian residential property market. The qualitative

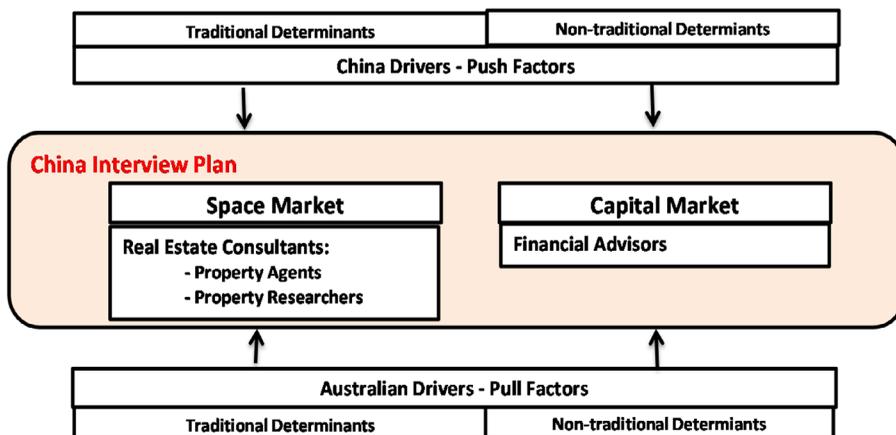


Figure 7. Interview plan.

data collected (descriptive and narrative) were audio recorded and transcribed. The transcripts were thematically coded using the qualitative analysis software, NVivo.

4. Outcome

4.1. China push factors

Interview participants provided some insights on the major factors driving China's outward FDI to other parts of the world including Australia. These outward investment rationales constitute the "Push Factors" for this study in accordance with the "Push & Pull" model stipulated in Section 3.1. The major "push" factors are listed as below:

4.1.1. China government policies

4.1.1.1. China "One-Child" policy and wealth accumulation. Significant wealth was created among the Chinese residents due to both the country's phenomenal economic growth and the implementation of its social economic "one-child" policy. As the "one-child" policy had recently ended and was replaced by a "two-child" policy in 2015, this study presented the unique "1 + 1 = 2" phenomenon in China that had impacted both the social and economic fundamentals of China for the past decades. In the context of this one-child policy, the decades of wealth created by the first generation had naturally flowed down to the second generation especially when the second generation started set-up their own young households. Wealth creation and accumulation experienced a "doubled-up" effect in the second generation of the China one-child policy. This phenomenon had led to enormous wealth liquidity among the young Chinese families, available to be invested both locally and internationally.

Quotes from participants:

Because why ... China last 14 years accumulate lots of money. (Under the one-child policy) ... people accumulate, because this last very long, from 2000 to 2015, very long. (China-Local-Real-Estate-Agent)

"So you invest a lot into your kids (in China) ... there's a big emphasis in terms of trying to give your kids the best in life. Not necessarily through emotional connection, but by getting them the best school or getting the best this or the best that."(China-Global-Property-Agent)

4.1.1.2. China "Going-Out" policy. Since 1999, China's "going-out" policy had further fuelled the momentum for Chinese to invest in overseas markets. Whilst the State Owned Enterprises and private entities from China were actively engaged in international merger and acquisition exercises, wealthy Chinese private investors were pursuing the world property market. In the wave of China substantial investment in offshore market, Australia emerged as the second highest recipient of China Outward FDI in 2014 (Ernst & Young China, 2015).

Quotes from participants:

"The government policy ... encourages the people to invest in overseas. Chinese Shanghai city governor a few days (ago) announced a new policy to try to encourage people to invest overseas."(China-Local-Property-Researcher)

“If the money stays (in China), and is forced to stay, then it just keeps fuelling higher prices ... you create imbalances (in China) ... some of that money that would be going into those first-tier cities and let it out into the world.”(China-Global-Property-Researcher1)

“We’re also seeing some Chinese buyers actually moving to peripheral markets as well. I mean take Europe for example ... you’ve seen some property markets really plunge, like Spain, Greece, and Portugal.”(China-Global-Property-Researcher1)

4.1.2. *Economic conditions in China*

As the Chinese residential property market was underperforming due to the various cooling measures implemented by its Government, wealthy Chinese were constrained in the investment options locally and looked for viable assets overseas. The China “going-out” policy, implemented in 1999, had further fuelled the momentum for Chinese to invest in overseas markets. Whilst the State Owned Enterprises and private entities from China were actively engaged in international merger and acquisition exercises, wealthy Chinese private investors pursued the world property market. In the wave of China’s substantial investment in offshore markets, Australia emerged as the second highest recipient of this Outward FDI in 2014. China local economic conditions that “pushed” overseas investment include:

(i) Limited investment options in China

Quote from participant:

“Chinese people, you know, they have only two choices for investment: One, house; one stock market ... the past three or four years the stock market is very low ... Chinese house, the price already too high ... compared with properties in US, Australia.” (China-Local-Property-Consultant)

(ii) Underperforming domestic residential property market

Quote from participant:

“... before they put it in to residential housing in China ... But over the last two years, because of the cooling measures, it hasn’t been a performing market so they looked at other markets elsewhere.” (China-Global-Property-Researcher1)

(iii) Diversification to overseas assets.

Quote from participant:

“One of the key things is just that it’s quite hard to get a good return on capital in the China market, the investment channels are relatively limited ... and real estate investment has probably been one of the best ones ... I can’t find anywhere in China ... so sometimes they look at overseas markets”(China-Global-Real-Estate-Agent)

4.2. *Emerging local determinants – pull factors*

4.2.1. *Residential Tourism (RT)*

All interview participants agreed that Australian cities carry a strong brand internationally in terms of a tourist destination and their liveability. This brand message and presence contributed favourably to the tourism industry in Australia. Liveability was the major aspect that caught the attention of the world community, and Australian cities enjoyed high ratings in the five categories stipulated by The Economist i.e. stability; healthcare; culture

and environment; education; and infrastructure. Foreigners who visited Australia were impressed by its world class education, healthcare, social security and admirable living standards, comparable to other world major gateway cities such as Singapore and London. This highly sought after liveability status had not only positioned Australia as the world tourist destination in the short-term basis, it had undoubtedly placed Australia as a strong contender for the world community's choice of a place to live and retire in the long term.

Quotes from participants:

(Australia) is it hot for Chinese tourism, is it hot for Chinese immigration, is it hot for Chinese education immigration (China-Global-Property-Researcher1)

for Australia ... It's about the society, it's about the weather, it's about access to different sports and the seaside ... it's about the Australian lifestyle, it's about the great outback (China-Global-Real-Estate-Agent)

if you want to purchase property, you will consider living environments, climate, you know, something like that for Australia. (China-Local-Property-Consultant)

RT is not a mainstream focus for property market research effort when compared to other empirical determinants such as education and migration. According to O'Reilly (2007), it had always been difficult to distinct between migration and tourism; a similar challenge was observed in this research. The inclusion of an "open-ended" approach in the second part of the interview process was used to solicit the "not so obvious" information surrounding the subject matter. Often, it was only after a series of discussions that the participants realised that "residential tourism existed in this part of the world". Figure 8 shows the Nvivo coverage analysis on the significance of RT as a key driver for offshore investment in Australian housing market:

Figure 8 shows that 57.3% of the participants agreed that RT is an emerging driver of Australian residential property market. 14.6% opined RT as the major determinant and 8.2% perceived RT as having no impact on Australian residential property market. The balance of the coverage (19.9%) did not mention or was not aware of RT as a potential driver.

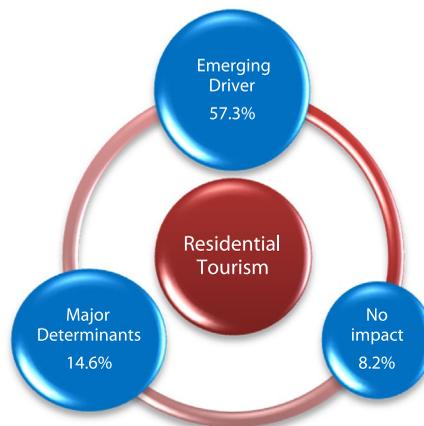


Figure 8. Residential Tourism – Nvivo coverage analysis.

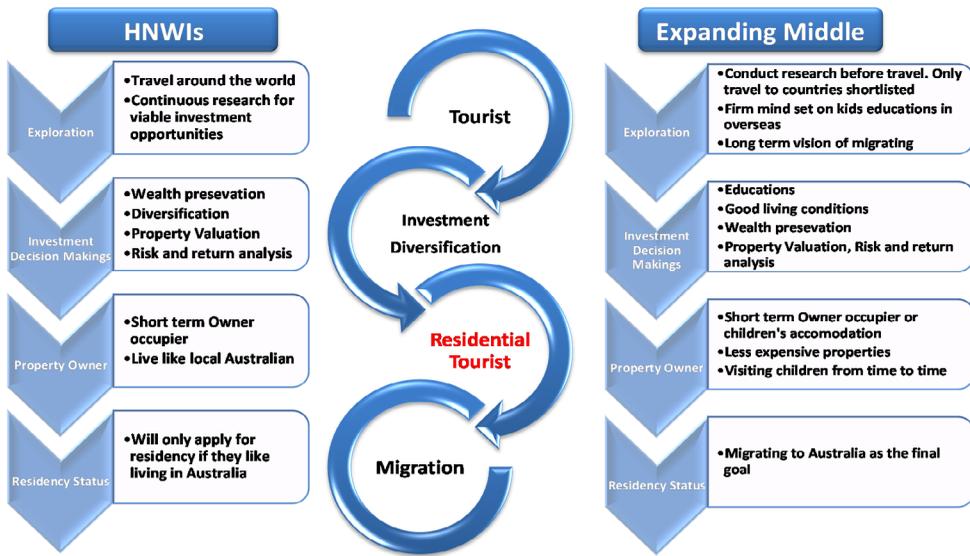


Figure 9. Residential tourist characteristics and decision making process.

4.2.1.1. *Residential Tourism – insights.* The result of the interviews highlighted two distinct characteristics of RT in Australia:

- (i) *High Net Worth Individuals (HNWIs)* – this group of foreign investors do not position permanent residency as their top priority. They are the affluent foreign investors who treat tourism as a way of life and conduct fluid, leisure lifestyles between major gateway cities in the world. They purchase residential properties in Australia with the primary objective of enjoying Australia's favourable living conditions as tourists and along the way, impute business strategies into the assets they purchase, reaping both rental yield and capital returns.
- (ii) *Middle class* – contrary to the HNWIs, enjoying the benefit of a good education, securing favourable living conditions for their children and eventually obtaining permanent residency status are the top priorities of this group of investors. There exists a special emotional value underlying their investment in Australian residential property. They intend to secure their children a better environment in which to grow and be educated. With the ultimate intention of attaining permanent residency in Australia, this group of investors often travel to Australia as tourists and soon after, their visitations are repetitive as their children attend Australian colleges and universities. The different approaches to the RT by Chinese investors is shown in Figure 9:

Figure 9 demonstrates the different characteristics and decision-making process of HNWIs and the expanding middle class. HNWIs emphasise investment diversification and wealth preservation for their investment in the overseas market. Some of the middle class would have already decided to migrate to Australia at the point of purchasing an overseas property for their children's education.

Quotes from participants:

As society gets richer ... where you've got the rich New Yorkers buying up property in Florida ... maybe Chinese New Year period or sort of November December time ... why not take a sort of two week break down to Australia it being obviously summer time down there? (China-Global-Property-Researcher1)

Over the last 10 years or so we've seen more Chinese people travel abroad, so they've been exposed to the life overseas ... a better impression of the quality of life ... So that's also stimulated investment abroad. (China-Global-Property-Researcher2)

there's also some people that perhaps are from middle income or upper middle income, they don't have to necessarily be high net worth individuals ... Some of them can be looking at migration, in which case ... they could just be scraping in to get enough money to be able to buy a property in the overseas market. (China-Global-Real-Estate-Agent)

4.2.2. Education

All participants in the semi-structured interview highlighted that education in Australia played a vital role in feeding the source of foreign money purchasing Australian residential properties. Hawthorne (2010) termed this a “two-step migration”, reflecting that all international graduates utilised the temporary graduate visa as a transition to qualifying for permanent residency. The pathway of enrolling as a student in Australia to being granted the temporary graduate visa had allowed an international student to remain in Australia for an extended period of time after graduation. Purchasing a residential property was a natural path during this period for international students with the long term perspective of becoming a permanent resident in Australia.

Quotes from participants:

“... from my experience with my friends, most of them chose to migrate because they want their kids to have a different type of education ...” (China-Global-Financial-Consultant)

They (Education) are big attractions to Chinese students and parents would like to buy one or two (residential properties), one for stay one for rent ... when they have kids, they focus on the education. (China-Local-Property-Consultant)

4.2.2.1. Education – insights. High awareness among all the participants on education as a determinant in Australian residential property market was consistent with the empirical evidence. Whilst the empirical reviews had centred on studies in migration trend in relation to the higher education, this study discovered that higher risk appetite from overseas investors had resulted in an emerging trend of many overseas parents sending their children to Australia in their early years for education. The research revealed that residential properties surrounding university, higher ranked secondary and primary school zones in Melbourne were experiencing significant international student enrolments. This emerging trend of Chinese parents sending children to Australia in their earlier years were validated in the semi-structured interviews. Figure 10 demonstrate the Nvivo coverage analysis on interviewees' responses:

Based on coverage analysis on the subject matter of the “Education” category, approximately 49.4% of the interview discussion centred on education as a driver from the

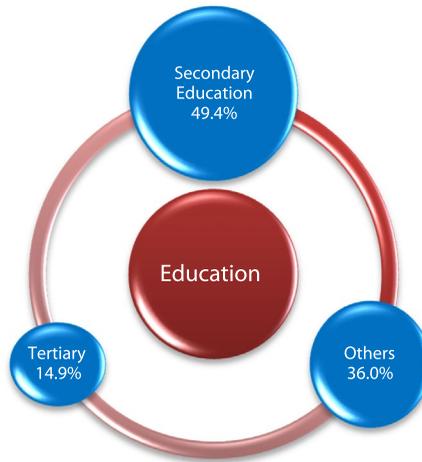


Figure 10. Education – Nvivo coverage analysis.

perspective of secondary education in Australia, 36.0% coverage talked about other education formats (for example primary education and short term courses) and 14.9% of the interview coverage talked about tertiary education as the main driver. This study revealed that international students were residing in Australia for a much longer period than the duration of tertiary courses enrolment, and this trend had further incentivised overseas parents to purchase residential properties in Australia. The main attributes which result in Chinese parents becoming more inclined to send their children to Australia in their earlier years are:

- (i) China education system was perceived to be rigid and lacking on innovations. Students' results were based heavily on their capability to memorise and answer standardised examination questions.

Quote from participant:

"... it's (China education) not good for the children in terms of independent thinking. They are trying to get passed the test. So the parents are quite worried about that."(China-Local-Property-Researcher)

- (ii) Chinese parents were more inclined to provide a more conducive learning environment for their children with one that is not purely based on examinations results. Chinese parents were increasingly reluctant to subject their children to the highly pressurised competitive environment and perceived western education as providing better learning environment.

Quote from participant:

"... the Chinese education is more on examination practice focus ... they perceived the education style in maybe US or in Australia or Canada or Europe are geared to encourage kids to learn and to develop their own way of thinking ..." (China-Global-Financial-Consultant).

- (iii) Education institutions in China were highly competitive and the reputation of the education institutions precedes the students' academic performance.

Quote from participant:

“And you also have to understand the number of kids which go through education system (the schools) in China and the fierceness in terms of competitive environment is extreme here. It's extreme.” (China-Global-Real-Estate-Agent)

- (iv) Decades of “single-child” policies in China had created a high degree of protectionism among the parents to shelter their children against extreme competitive study environment.

Quote from participant:

“Most of them chose to migrate because they want their kids to have a different type of education.”(China-Local-Property-Researcher)

5. Conclusion

The aim of this study is to explore the emerging FREI determinants in the Australian residential housing market, particularly in areas that has experienced significant growth subsequent to GFC 2008. An emerging non-capitalist factor of RT is introduced to determine the extent of which this new driver shaping the development of Australian residential housing market. A series of semi-structured interviews were conducted in China to seek latest market information and verification to justify the findings that Australian residential property market was increasingly influenced by overseas conditions, and RT had emerged as a new driver that should be taken into account for future evaluation of Australian residential property market.

Australian property, as an investment portfolio, is becoming an increasing apparent option to the world investor community. Although the focus of this study is on China investors, all participants commented that private investors from other Asia Pacific countries were equally interested in Australia real estate. Australia has emerged as internationally relevant in many aspects, and highly ranked in terms of stability and liveability. The brand presence of Australia as a safe and liveable country, is to a large extent, similar to big international brands like Apple or Mercedes, in that it commands high respects and premium status compared to other parts of the world. It is believed that as long as Australia continues its favourable brand image internationally, foreign investors from around the world, not limited to China, would continue to invest in the Australian residential property market. This certainly has exerted a new dimension into the property market.

RT as a new driver in the Australian residential property market was validated in the semi-structured interviews conducted in China. As noted in earlier sections, Australian cities were internationally renowned for its “relative picture of stability” in terms of society, healthcare, culture and environment, education and infrastructure. The RTs from China demonstrate two unique characteristics:

- (i) *High Net Worth Individuals (HNWIs)* who do not position permanent residency as their top priority. Tourism is a way of life and they live a fluid, leisure lifestyle between major gateway cities in the world. They purchase residential properties in Australia

with the objective of enjoying Australia's favourable living conditions as tourists and imputed business sense in the assets they purchased by earning the rental yield and capital returns.

- (ii) *Middle class* – With the ultimate intention of obtaining permanent residency in Australia, this group of investors began travelling to Australia as tourists and their repeat visits to Australia increased after their children's enrolment into Australian colleges.

Assessment conducted on China government policies was a challenging exercise both in terms of the sensitivity and complexity of interview exercise itself. The research was conducted within the "Push and Pull" model framework employing an open-ended interviewing approach to solicit in-depth coverage on this issue while carefully avoiding potentially sensitive elements.

Significant wealth was created and accumulated among the Chinese due to both phenomenal economic growth and the social economic impact of the "one-child" policy. This study presented the unique "1 + 1 = 2" phenomenon in China that had impacted all aspects of the Chinese society for the past decades. Wealth experienced a "doubled-up" effect due to both the creation and accumulation of the first generation's wealth that was passed down to the second generations of the "one-child" policy. The wealth of two families was merged into one newly married couple and created a new generation of wealthy young Chinese families, ready to invest both locally and internationally.

Since 1999, China's "going-out" policy had further invigorated the momentum for Chinese to invest in overseas markets. Whilst the State Owned Enterprises and private entities from China were actively engaged in international merger and acquisition exercises, wealthy Chinese private investors pursued the world property market. In the wave of substantial China investment in offshore markets, Australia emerged as the second highest recipient of this Outward FDI in 2014.

Figure 11 shows the pictorial representation of Australian residential property market model simulated based on the major "push" factors from offshore government policies,



Figure 11. New Australian residential property market model.

coupled with the significant “pull” factors from Australian government policies and the resultant interactions of property, space and capital market determinants:

Current Australian residential property market performance is uniquely shaped by both foreign and Australian government policies as depicted in Figure 11. Current evaluation measures on Australian residential property market performance are perceived inadequate due to its performance evaluation being heavily focused on domestic conditions and drivers. Undoubtedly, the Australian government policies in the area of foreign investment, education, immigration, tourism and social security benefits have provided the much needed foundation for a favourable investment environment. As the world becomes more transparent with globalisation and advancement in information technologies, these favourable drivers were quickly acknowledged by global real estate investors engaging in cross border real estate transactions in Australia. Chinese investors were the subject of this study, as the impact of the “one-child” social policy and “going-out” policy pushing Chinese investors to actively pursue cross border real estate investments.

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Appendix 1. Proposed semi-structured interview questions

Information on your Organisation

- (1) Which overseas property markets does your organisation operate within (both geographically and scale)?
- (2) How does your organisation service Chinese investors who wish to invest in overseas property market?

Information on Chinese investors' overseas investments

- (1) What are the different characteristics and types of Chinese investors who invested in overseas residential property market?
- (2) Focusing on private investors from China, what do you perceive are the main drivers for their investment in overseas residential property markets?

- Are these drivers mainly specific factors or are they economic and social factors that encouraged overseas investments?
- What are any other considerations, for example capital preservation, taxation? Please explain.

Property market conditions

- (1) Assessing past and present, which type of properties do China private investors prefer and why?
- (2) Compared to other overseas investment destinations, how has Australia performed in:
 - Sales: Competition, features, types of purchases?
- (3) What are the major local factors in Australia (Melbourne) that attract Chinese property investors to buy residential properties?

Information on education

- (1) Will the investors regularly visit locations interested prior to residential property purchase? If yes, why and with who?
- (2) Do you perceive the education system play a role in these investors' decision-making? How significant is Australian education system influences these overseas investors' decision on residential property market?
- (3) What is the role of the living standards and conditions (tourism) of Australia on Chinese investors' choice and decision-makings when it comes down to buying overseas residential properties?

Appendix 2. Codes for China property professionals

Role in organisation	Type of organisation	Location/ Coverage	Code to be used for analysis
Associate Director	Real estate consultant – Global multi-disciplinary property organisation, property agent serving all types of property markets	Shanghai, China	China-Global- Real-Estate-Agent
Owner	China Property Agent serving overseas property investments and international property conference organiser	Shanghai, China	China-Local- Real-Estate-Agent
Director, Head of China Strategy Research	Real estate researcher – Global multi-disciplinary property organisation serving all types of property markets	Shanghai, China	China-Global-Prop- erty-Researcher1
Head of Research	Real estate researcher – Global multi-disciplinary property organisation serving all types of property markets	Shanghai, China	China-Global-Prop- erty-Researcher2
President	Shanghai local property surveyor and agent	Shanghai, China	China-Local-Prop- erty-Researcher
General Manager	International Merchant Banker – providing cross border financing and transactional services	Shanghai, Beijing China	China-Global-Finan- cial-Consultant
Vice President	Fund Manager and Consultant – providing advisory services to companies and clients on investment	Shanghai, Beijing China	China-Local-Prop- erty-Consultant