Business Insight

China property buyers go global as yuan rises

LONDON/HONG KONG—China's notorious property bubble could become its next big export with a stronger yuan giving its newly rich the buying power to splash out in the world's most sought-after property markets.

Buoyed by hopes of gains in the yuan after its dollar peg was shed on June 19, Chinese investors are chasing discounted apartments from London to Singapore with a view to reducing their exposure to an overheated domestic market.

"I think you will start to see more strength in that currency and that will give further impetus to look elsewhere for investments," said James Moss, managing director of upmarket UK real estate services company Curzon Investment Property.

"The whole economic situation (in China) is prone to change and so people are looking for a safe haven for their money," said Moss, noting his client base was now 75 percent Chinese, from 95 percent expatriate UK investors five years ago.

Despite vast state wealth and one of the world's strongest economies, China's influence on overseas real estate markets has so far been eclipsed by Middle Eastern investors, private equity funds and other sovereign buyers from South Korea or Singapore.

Chinese property investors have so far mostly confined their acquisitions to domestic markets, pushing average prices up by 77 percent in five years and forcing the government to enact tough measures to keep homes affordable. - Reuters

With property tightening measures at home and the value of its currency set to firm, analysts see more buyers branching out into overseas markets that promise attractive gains with fewer restrictions.

China abandoned a 23-month-old peg to the dollar earlier in June and, even though analysts do not expect the currency to be fully convertible any time soon, further appreciation is likely, boosting the overseas purchasing power of Chinese investors.

The People's Bank of China has said exchange rate reform would be gradual and that it will ensure the yuan could both rise and fall depending on market conditions.

The yuan is seen up 2.4 percent against the dollar by year's end, hitting 6.67 yuan, a Reuters poll showed.

Data from real estate broker Knight Frank showed more than one in 10 new-build residential properties in London were sold to Chinese or Hong Kong buyers in the year to March, the highest share of the market by any offshore investors.

In Hong Kong, a fifth of luxury apartments are purchased by mainland Chinese, said Alva To, head of consulting for North Asia at property broker DTZ, citing industry figures.

Developers also hope Chinese will tap new frontiers, from Indonesia's Bali to Dubai. Dubai Pearl FZ LLC plans to market its upmarket homes in Beijing and Shanghai, while Indonesia's PT. Dua Cahaya Anugrah also plans to market its latest Bali beach villas across China.

"As Asian domestic markets show their own signs of difficulties, Chinese buyers in particular are keen to invest in markets they regard as more secure than their own if they can get through the regulatory minefield and release the funds," Liam Bailey, Knight Frank's head of residential research, said.

A relentless rise in domestic property prices since house ownership was legalised in 1998 has fostered a strong preference for bricks and mortar over volatile equities among Chinese, already known as strong savers and investors.