Global Economic Policy Lab

The Impact of Declining Chinese Investment on Australian Residential Real Estate – Trivial or Dominant?

Observations During the Pandemic

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Introduction and Overview

Domestic audiences in Australia and analysts in the international capital market are arguing that wealthy Chinese investors are dominating real estate markets globally. Especially in Australia, the influence has been prominent in the residential real estate (RRE) sector. An increase in the Chinese population in the country - as short-term visitors or long-term residents - has been changing patterns of housing supply and demand, which has the potential to significantly influence market dynamics in the near future. The COVID-19 pandemic allows us to evaluate these claims, since Chinese (and other) entries into Australia experienced a sharp slump following restrictions on travel and foreign arrivals. We argue that Chinese visitors and investors have trivial impacts on the residential real estate market in Australia, and the housing market will continue to expand in the short-run due to domestic demands and economic recovery from the COVID slowdown.

Section 1:
Quantitative Market Assessment

For obvious reasons, real estate (RRE) markets are fundamentally driven by population growth and the resultant demand for real estate, with immigrants making up a significant buyer share in countries where policy mainly attracts middle-class arrivals. In Australia, this means primarily Chinese immigrants. There are two main categories of Chinese buyers in the Australian market – rich investors (who have spent significantly in the country post the 2008 financial crisis) and international students. The second category has seen a sharp dip in numbers in 2020 due to travel restrictions following COVID-19. Many claim that this fall will reduce the demand for residential property and further deteriorate the position of the whole market, unless such demand is substituted domestically.

Sharp Decline in Chinese Residents in Australia

After increases over many years, the number of Chinese students enrolled in Australian universities in the past four years saw a drastic decline in 2020 (Figure 1). Compared to other nationalities, since 2002, the total number of Chinese residents (academic and non-academic) have seen consistent growth in Australia. Chinese nationals have also become important participants in the housing market in the last ten years. Hence, losing Chinese demand for residential property is projected to significantly impact the Australian market in the long run.

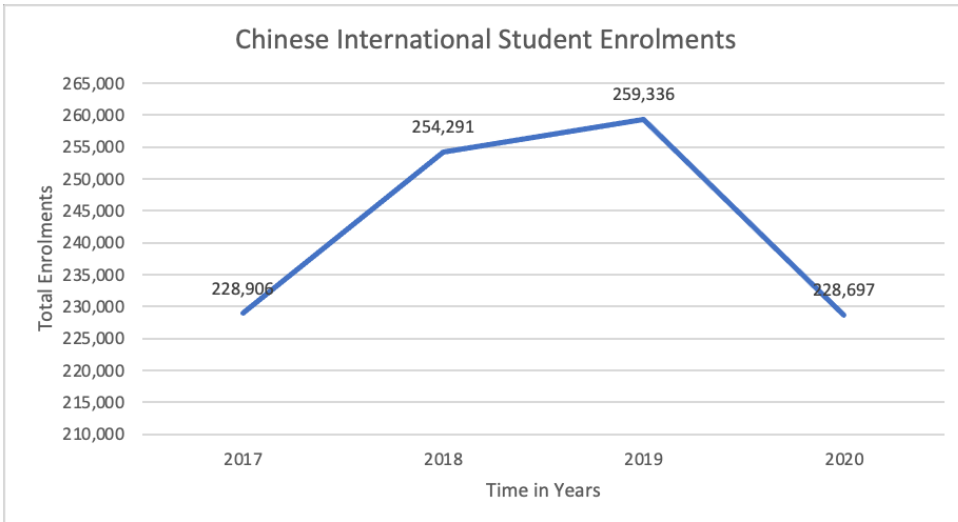

Figure 1: Chinese International Student Enrolments in Australia | Source: International Education

On the Australian side, policy has changed as well. Although a downward trend in the number of student visas issued to Chinese students began in 2018, it experienced an even more drastic decline in 2020 as teaching shifted from in-person to online instruction (Figure 2). Visas granted to other Chinese visitors - tourists, workers, and temporary residents – likewise fell (Figure 3). Besides the number of visas issued, what directly reflects the decline in Chinese footfall in Australia is the actual number of arrivals of visa-holders. Compared to December 2019, Chinese arrivals in the same month in 2020 experienced a 99.0% decline. Thus, if Chinese buyers do significantly impact Australia's residential property market, a decline in their numbers should affect the demand, supply and transactions made in the sector.

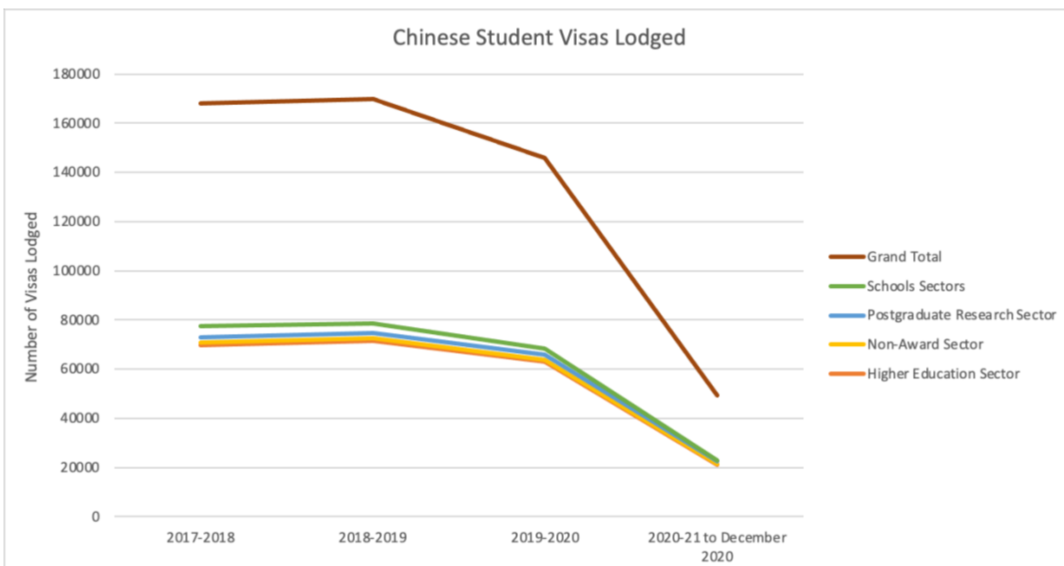

Figure 2: Chinese Student Visas Lodged | Source: Australian Government Database

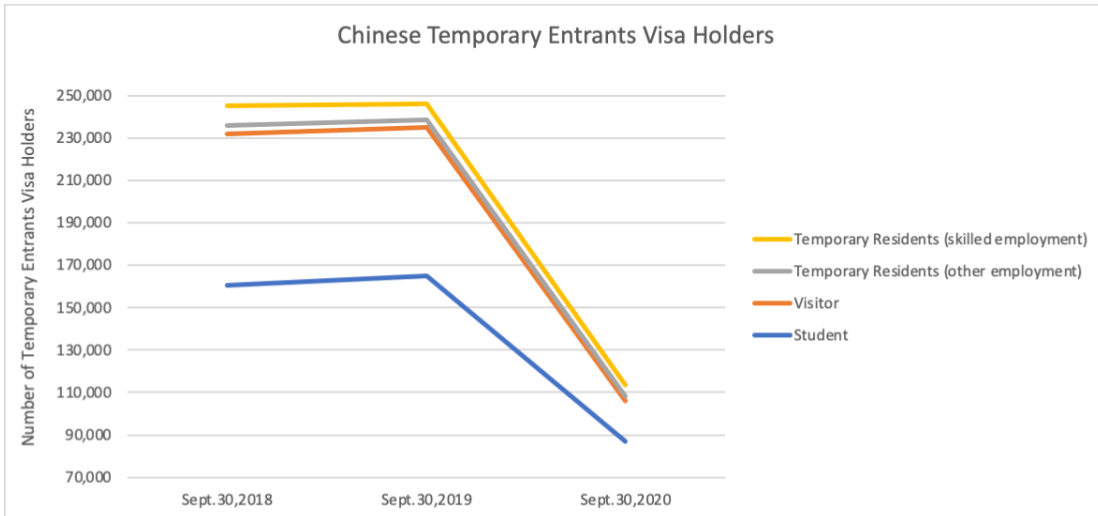

Figure 3: Chinese Temporary Entrants Visa Holders | Source: Australian Government Database

The Supply Side

The supply side in RRE in Australia experienced negative shocks due to COVID-19. As Figure 4 reveals, the total number of transfers of residential property decreased by 16% within the first quarter of 2020, compared to the previous quarter in the national market. At large, the annual change, compared to third quarter of 2019, in 2020 was –12.8%. However, the growth rate returned to positive, at 10%, within the next two quarters. The Australian Weighted Residential Property Price Index (WRPPI) decreased by 1.8% between Q1-Q2 of 2020 after three consecutive quarters of growth. This, however, was short lived as the index returned to 0.8% rate of growth by Q3 of 2020 (Figure 5). The total supply of residential dwellings, including houses and condos, decreased in Q1 – Q2 of 2020, but resumed growth again in Q3 of 2020 (Figure 6). Therefore, these supply-side trends indicate that RRE offerings fell during the initial few months of the pandemic but made a quick rebound as the economy started recovering.

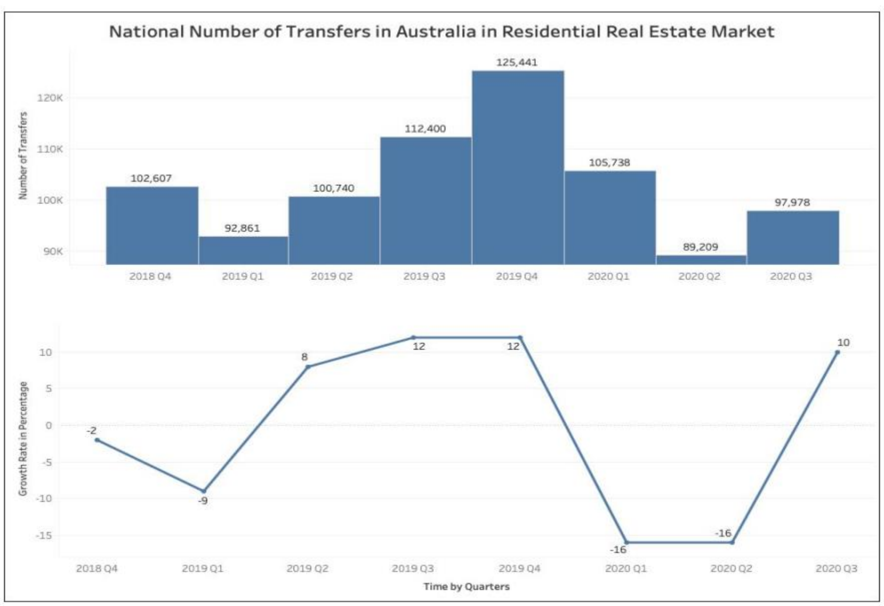

Figure 4: Property Transfers in Australian RRE Market | Source: Australian Bureau of Statistics

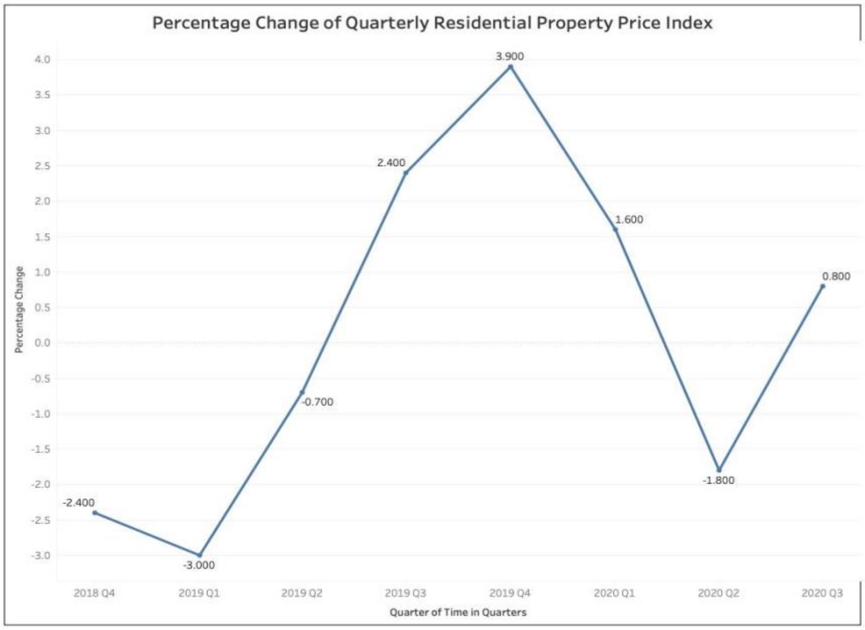

Figure 5: Percentage Change in the Residential Property Price Index Weighted among Metropolitans in Australia, Quarterly | Source: Australian Bureau of Statistics

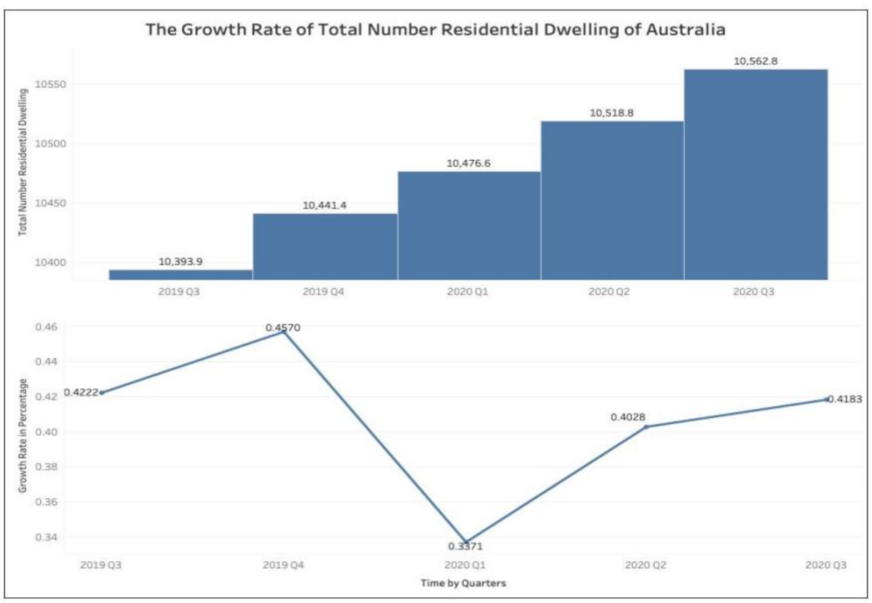

Figure 6: The Growth Rate of Total Number of Residential Dwellings in Australia by Quarters | Source: Australian Bureau of Statistics

The Demand Side

The demand side of the RRE markets adjusted in response to the shocks of COVID-19 earlier than the supply side; however, trends were similar. Even as new Chinese entries into Australia were suspended due to travel bans on arrivals from mainland China, demand for housing did not suffer much and recovered shortly. Furthermore, an evaluation of the change in new loan commitments for housing properties show that even though the total value of new loan commitments decreased between March to May 2020 (by more than 15% per month), the decrease was reversed after the second quarter and the trend has since continued to grow. In fact, the total value of new loan commitments for housing rose by 8.6%, approximating $26 billion, in December 2020. This was a 31.2% increase from December 2019, depicting a long-term increasing trend with a positive change rate (Figure 7). Similarly, new loan commitments to first home buyers show a consistent positively increasing trend with only a temporary decrease in early 2020.

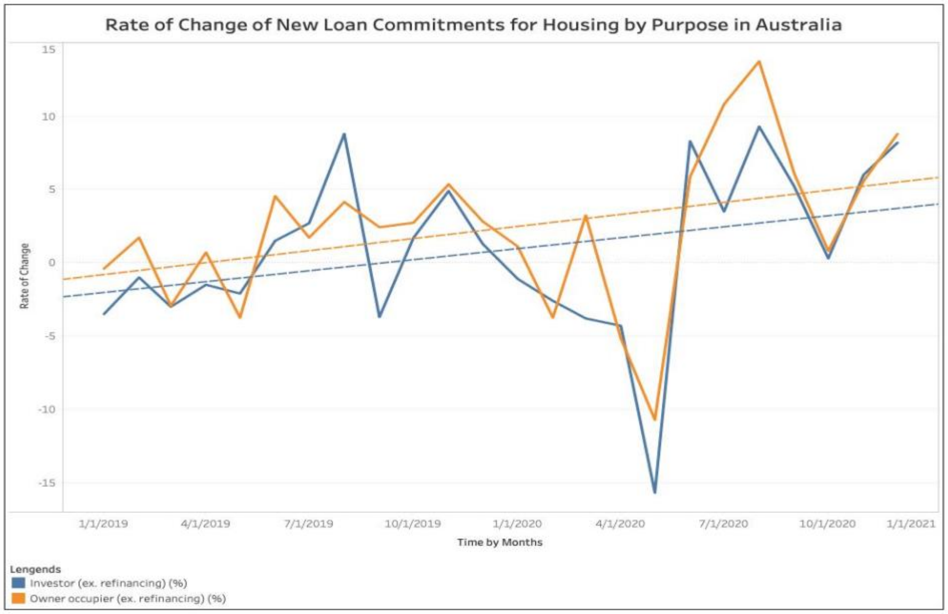

Figure 7: Rate of Change of New Loan Commitments for Housing by Purpose in Australia by Month | Source: Australian Bureau of Statistics

Rentals

Temporary visitors like international students often prefer leasing over buying property. Residential vacancy saw a considerable rise in early 2020 (between Q1 and Q3) and a sudden slump in Q4. This suggests that losing Chinese students and short-term visitors – the target rental groups – had some negative impact on the renting market, however it was insignificant in scale and short-term (Figure 8). Rents saw a minor fall during Q1-Q2 and then a huge hike Q3 onwards (Figure 9). This iterates the point of quick recovery in the demand and supply of Australian residential property in 2020.

Figure 8: National Dwellings' Vacancy Rate per month | Source: SQM Research

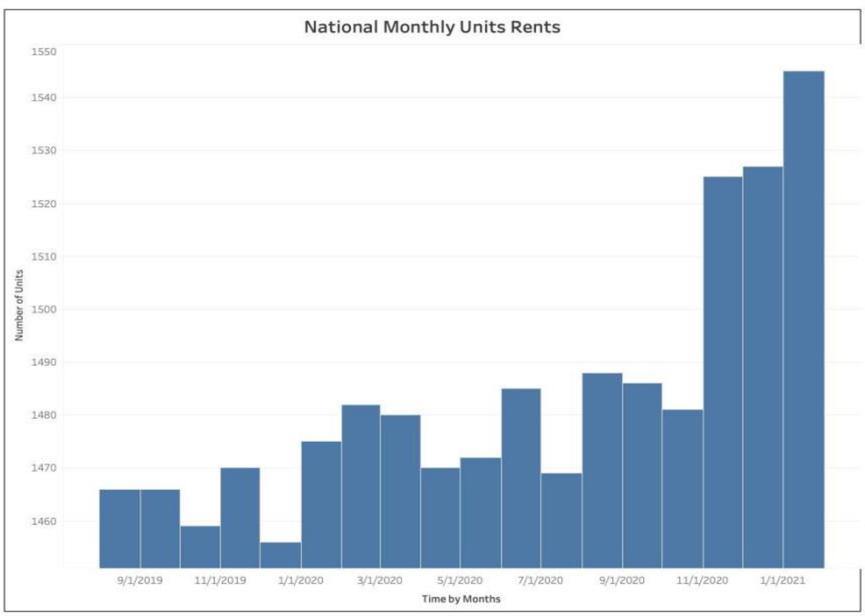

Figure 9: National Monthly Renting Price for Units | Source: Australian Bureau of Statistics

Section 2:
The Future of Residential Real Estate in Australia

Post-COVID

Chinese international students accounted for only 28% of the total international students in Australia in 2020 compared to 30% in 2018. Similarly, total Chinese immigrants in Australia made up only 2.6% of Australia's national population in 2019, which is a lower share than other immigrants (like the British) in the country. Moreover, the absolute share of transfers by Chinese buyers in the national RRE market was constantly relatively small – the ratio between Chinese residents and national dwellings is 0.064 which is trivial. Though the ratio is slightly larger in some capital cities, it does not dominate the entire national RRE market. In general, considering factors like GDP per capita, employment and interest rates, which are predicted to show positive trends post-COVID, the Chinese residential market will see growth and a rise in residential property transfers well after the pandemic.

The Uncertainty from Political Tensions

Political tensions between Australia and China became worse after the Australian Prime Minister called for an independent inquiry into the origins of COVID-19, in April 2020. Further, China's Ministry of Education also issued warnings of racial discrimination to students hoping to return to Australia, discouraging travel to the country. Considering the rising diplomatic and trade tensions between the two countries, we do not expect Chinese arrivals in Australia, including those of students, to increase at the same pace as in other countries. The increasing reports about racially motivated attacks against the Chinese in Australia will also deter post-COVID tourism and investment willingness amongst them. As a result, compared to the pre-pandemic levels, there will be a decline in Chinese residents and students in Australia, which will further reduce their influence in the Australian residential property market, as the already insignificant demand will fall.

Market forecasts

Considering the outstanding Australian response to the pandemic, and multiple positive economic and financial indicators in 2021, the property market is likely to witness strong growth. Further, the subdued Chinese interest in Australian property fostered by political factors, and the unlikeliness of Chinese students returning at same levels as before COVID will minimise any influence the Chinese had in Australian RRE. Additionally, the minimal fall in demand is also substituted by strong demand from domestic buyers and international investors from North America. Finally, considering the strong correlation between the GDP growth rate and the employment rate with the total RRE transfers quarterly, the total RRE transfers in Australia will continue to expand in the future.

Section 3:
Conclusion and Takeaways

Though there exists a visible correlation between the fall in Chinese residents (including students) and the contractions within the RRE market in Australia, there isn't enough evidence to claim that this will drastically impact trends in the residential market or cause a permanent reduction in the overall demand. Furthermore, our evaluations show that the impact, if any, will be short-lived and will not sustain for more than two quarters. There are also other factors which may influence Chinese interests in Australian RRE, including the strained relations between Australia and China.

Finally, we suggest that:

1. The decline in the RRE market in early 2020 was not solely due to the fall in the number Chinese residents, but also due to factors such as the impact of COVID-19 on the domestic economy of Australia and the national bushfires.

2. American and Canadian investors are gradually taking over the original market share previously owned by Chinese buyers, hence the losses from Chinese investors are actually lower than expected.
3. The decline in Chinese investors and their investment size was visible even pre-COVID, hence the impact of the pandemic on Chinese investments is not obvious.

Since the forecasts about the national economic growth in Australia is positive, we reiterate that the RRE market will continue to expand, and prices will increase in the medium to long-term.