The Chinese revolution in housing

Investments Seminars advising Asian buyers how to get ahead in residential property are changing the market, writes **Su-Lin Tan**.

In early June, 800 people jammed into a room on a chilly night at Sydney's Olympic Park, not for a concert or work function but something far more evangelical.

The Property Investors Alliance has just built its own seminar auditorium and was christening it with its latest seminar on how to invest in residential property in Sydney. Officiating at the new hall was the group's founder and managing director Justin Wang.

The Chinese-language-only presentation was at capacity and 100 people had to sit outside the hall to watch on screen as Wang, who began his career as a high-school teacher, talked on negative gearing, asset selection, tax and how Australia's property market was manna from heaven.

"I feel like Moses at the top of the mountain with two tablets in my arms," says a smiling Wang, who's a Christian.

This meeting is one of hundreds of property investment seminars the group has rolled out to its 7000-investor base since it started in 2006, advising and assisting its members, mostly middle-income Chinese migrants, to buy property.

The group, which resembles a co-operative, invested $1.75 billion in residential property last year, mainly in inner western Sydney suburbs such as Burwood and Strathfield, where the annual capital growth rate has been 8 to 13 per cent, according to real estate analysts CoreLogic.

Wang estimates the average portfolio for each client is about $1 million.

He works with developers in bringing properties he thinks are suitable to members of PIA, and is then paid by the developers for each property his members buy. Wang says he doesn't impose any fees on his members. However, the appetite for residential property could be tempered as state governments have moved to impose surcharges on foreign purchases, with NSW joining Queensland and Victoria.

In NSW this week the state government said a 4 per cent stamp duty and 0.75 per cent land tax would be applied to property bought and owned by foreign investors. The changes drew a sharp warning from Wang.

"The state government must be supremely confident in the Sydney property market conditions that the new surcharge, which effectively doubles stamp duty for foreign investors, will not impact the local market, and that it will not impact further supply and not depress foreign investment potential in this state," he said.

"I challenge the government to reconsider this surcharge. Has the government forgotten the ill-advised vendor stamp duty introduced several years back and quickly wound up? I hope that they don't make the same mistake!

"For a healthy market to flourish, it is best not to artificially interfere with market forces of supply and demand. I call for the industry, and government, to adopt a Taoist approach in relation to the market.

"Taoists let things achieve harmony on their own. By interfering, even in the name of 'improvement', well-intentioned efforts may actually remove a phenomenon from its natural course – and ultimately cause harm."

One of the strongest property booms in Australian history has led to a proliferation of property investment seminars being held across hotels, many filled with free food and an army of suited consultants waiting to pounce on wannabe property buyers.

But Wang rejects suggestions that PIA is in any way a "spruiker". His ambition is to make PIA the first "end-to-end property distribution channel", connecting the developer to the investor while offering property market and financial advice.

"Agents just try and sell you apartments and take their commission. Some developers are so arrogant, trying to flog off their products and treat agents badly. Banks make interest. Who's looking after the investor?" he asks. "When we sign up an investor, we teach them financials, the property market. We also investigate their budgets. We help them obtain the right finance. Then we find a good developer with the right products for them. Then we ensure they settle their purchases."

And Wang employs 270 consultants to do that. Each consultant is trained by PIA and acts as a go-to person for their portfolio of clients, meeting them regularly.

Wang has removed clients when they have deviated from PIA's investment approach. PIA has relationships with Westpac and ANZ, and Wang says he is not about to jeopardise his no-default referrals to them by having a "black sheep" investor. Westpac and ANZ declined to comment on their relationships with PIA on grounds of confidentiality.

Like Wang, Cam McLellan, a director of another property investor group, OpenCorp, agrees not every investor group with a seminar program is a spruiker.

Industry experts recall individuals such as Henry Kaye, who headed a get-rich-quick property empire that targeted unsophisticated investors, and collapsed in 2003 owing 3500 investors up to $60 million.

"A spruiker's seminars are always a sales pitch. You are going to be sold to and there will be 'limited offers'," says McLellan.

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> Justin Wang, PIA founder

Slightly different to PIA, OpenCorp says it runs workshops, rather than seminars, which provide financial education to investors rather than sell properties.

It makes its money finding property for clients, who engage them for a fee of 2.2 per cent of the purchase price, but does not sell properties for developers. It also has a $600 million apartment development pipeline in Melbourne but says it does not sell the properties direct to clients.

"To know if someone is a spruiker you need to understand how they make their money," says McLellan. "We make 99 per cent of ours in development and funds management, not in education."

McLellan adds that long-term mentoring and partnership with clients are signs of a healthy investment advisory business, especially if it teaches counter-cyclical long-term investment strategies.

PIA only allows its members to invest in properties commensurate with their wages. For example, a member earning $80,000 a year would not be allowed to buy property, typically an apartment, valued at more than $600,000 to $700,000. Most of the group's investments are in Sydney's fringes or growth areas, including Homebush, Merrylands, Epping, Botany and Pagewood. PIA partners with developers to build apartments, which it sells to clients and in return gets a fee from the developer.

"We focus on units that fulfil a renter's basic needs. They need to be in high-demand areas, just outside the CBD, with reasonable rental, access to transport and have more than a gross yield of 3.5 per cent," Wang said. He does not advocate negative gearing, although many properties will have a tiny negative cash-flow gap in Sydney, he says. Nor does he believe in speculative investments. "Negative gearing is a bonus, not the key to investment. If an investor makes it a purpose, it's wrong."

Established family developer Landria Constructions was stunned when PIA sold out 14 apartments at its 20-unit development Alexia in Sydney's inner southern suburban Alexandria in 15 minutes. "It's really hard to believe they had a database so strong," Landria's Hamid Bechara said.

"They were pretty good to deal with, pretty professional ... definitely look to work with them again."

Bechara, who sold units priced between $615,000 and $755,000, would also consider a joint development project with PIA.

Clients in PIA refinance on their properties to buy more. Some of his clients, such as Johnson Ng, have up to 15 apartments. Ng was so persuaded by PIA's investment techniques that he quit his logistics job to join PIA as a consultant. "I was frustrated because in this system the harder I work, the more I fear losing my job," Ng says.

"What Justin gave me was a methodology to show me step by step how to invest in the right properties. It was a lifesaver."

Ng doesn't believe Australia's superannuation, employment rules and taxes help Australians look after their future and so PIA's philosophy of "financial freedom" made sense to him.

He claims he makes 10 per cent a year on capital growth and about 300 to 400 per cent in return on his initial and only outlay – a deposit on the first apartment – each year. Such high returns could only be achieved through leverage.

Ng's plan, like many of PIA's clients, is to hold the properties to retirement for rental income and capital growth. To wind down his leverage, he will sell the properties.

Wang migrated to Australia from China in 1993 and felt "poor".

"I was just surviving day to day," he says.

He studied an MBA at the University Technology Sydney and started project marketing apartments for developers. One of his earliest sales was through developer Holdmark's apartments in Auburn Central in Sydney's west, which had fire safety issues in 2007. The size of individual portfolios like Ng's and the quality of the assets have raised eyebrows.

But Wang says little can go wrong, even in a recession. He believes there will always be a demand for residential property, especially in Sydney and Melbourne, mostly because of an increasing flow of migrants. This means there will be high demand, coupled with a slow planning system that means housing is scarce.

Both property industry groups UDIA and Urban Taskforce said PIA and similar "crowdsourced" models will revolutionise the Australian market.

"What you're going to find with changes in APRA and foreign lending, the PIA model will become significant as developers seek to source out funding. This will become more common, not just from local Chinese funders, but from everywhere," UDIA NSW chief executive Stephen Albin said.

Urban Taskforce chief executive Chris Johnson said the PIA strategy is shifting dynamics – investors are dictating development starts. "The approach that Justin and PIA has is the new direction. It's changing how you find purchasers for a project."

Justin Wang of the Property Investors Alliance, left, offers investment advice to his Chinese audience in Sydney. PHOTO: DOMINIC LORRIMER