

JEFF XU is outgrowing Melbourne. Xu, 35, is one of the city's new breed of wealthy Asian property developers dominating Melbourne's apartment and hotel market. Cash-strapped local developers watch with envy as Xu makes his mark on the CBD and suburbs.

While Xu, born in Wuxi, near Shanghai, loves the world's most livable metropolis, his point of reference is his homeland, a country where cities spring, fully formed, in a matter of years where 300 million more people will swap rural homes for high-rise apartment living by 2025.

Sitting in his Chinatown offices, Xu gamely mocks Docklands, Melbourne's version of a fast-tracked, high-density suburb, where local developers have built five apartment towers in 15 years. "In China, maybe 20 towers will be built per project in three years. When you go to China you see every project is maybe 10 or 20 towers."

Xu's message is polite but firm. Billions of dollars are flowing into Melbourne as a generation of Chinese pursues its new-found wealth in a safe investment environment. But if Melbourne wants to cash in on China's growing appetite for overseas property, Xu says it needs to embrace an Asian approach to development. It needs to find ways to enable high-density housing to bloom.

"Developers can go elsewhere," Xu told *The Age*. "They can choose Canada, they can choose the States, they can choose Australia, they can choose Shanghai."

As young Asian developers like Xu start to exert influence on the Melbourne skyline, in the city's corridors of power some key people are pushing back. Few disagree that the flow of Chinese money here is a good thing. After years of Victorian manufacturing migrating to China, something is returning.

The Chinese boom profits are creating jobs and wealth in Melbourne at a time when the Victorian economy is weakening and getting finance is difficult for local developers. But some established Chinese business and political leaders in Melbourne caution against importing an Asian model of super high-rises and shaded city streets, of "ghost towers", and of the potential clash of a centuries-old way of "doing business" against a modern democracy's checks and balances.

Chinese-born local developer and philanthropist Jason Yeap is one. "Melbourne is bustling, there is a lot of activity but we don't want to live in shadows. Do we need to be like Shanghai?"

So far, Australia's foreign investment debate has centred on the purchase of agricultural land and resources, but this is about the city. From the Melbourne CBD eastwards through Box Hill, Glen Waverley, north to Preston and west to Footscray, developers from mainland China in particular, but also from Hong Kong, Malaysia and Singapore, are buying sites for housing and hotels. Asian money is pouring into Australian property, and more recently into property development.

Australian real estate agents CBRE estimate that Chinese and other Asian business accounts for 85 per cent of recent large sales of sites in and around the CBD intended for residential or predominantly residential development. CBRE's sales in these purchases, Mark Wizel, values these projects at more than \$4 billion. Asian capital is also becoming a big player in commercial property, with CBRE declaring 2011 the Year of the Foreigner.

China's unprecedented industrialisation and urbanisation is generating wealth at such a rate the People's Republic now has the world's second highest number of billionaires, behind the US. However, emphasis of market economies is only partial, posing a quandary for the newly rich. Property is not freehold, and wealthy one-child families have limited investment options. Many remain anxious about a government that is unpredictable and still suspicious of private wealth.

"Today we have one policy, tomorrow we have a different policy,"

Chinese developers are changing the Melbourne skyline, report **Royce Millar, Melissa Fyfe and Marika Dobbin**

says a Chinese-born property specialist operating in Melbourne. "So it's so scary to invest money in China."

Australia's relative economic and political stability, and its resistance to the global financial crisis, make it attractive. Despite the strong Australian dollar, agents point out that Melbourne and Sydney offer good investment value relative to Hong Kong, Singapore, London or New York.

Asian investors are filling a gap created by Australian banks' reluctance to lend to local developers since the financial crisis. By contrast, the newcomers have money to burn and private wealth boosted by the deep pockets of the Chinese banks that have followed them here and into Melbourne's financial epicentre in Collins Street. Eight Chinese banks, including some of the country's largest, are now operating in Australia.

"In China, you don't know how rich they are," says Sunny Lu, a real estate agent who was born in China but came to Australia 10 years ago as an international student. "A lot of people

"The newcomers have money to burn"

own a lot of money. I can't tell you how much, but too much money billions of dollars."

In her Russell Street office, Sunny Lu takes dozens of phone calls each day from Chinese investors eager to buy property in Melbourne. Kenneth King, her business partner at Professionals City Residential, files to investors in eight Chinese cities. Property sector insiders here note that the new Asian developers are easily outbidding locals for the best sites and will happily take a loss on their initial projects to gain experience.

Melbourne also appeals because of the city's historic links with China. Chinatown, one of the world's oldest, was established in Little Bourke Street in the 1850s. Some of the current crop of developers were educated in Melbourne and are keen to have an ongoing relationship with the city. Many investors are now buying houses in Melbourne and educating their kids at local schools.

John Denton, a leading Melbourne architect and pioneer of Australian business in China, says former first minister John So was important to the Asian view of Melbourne as a friendly city. "A man of Chinese background not fluent in English made people comfortable about Melbourne as a place where they could do business."

Last month Premier Ted Baillieu led the largest ever Australian trade

mission to China, a sign of the state's hunger for investment as it faces an economic slowdown. Victoria's interest in the local property market is a godsend, providing jobs for builders, planners, architects, engineers and real estate agents.

Wizel points to Communications

On the drawing board: Asian investment in Melbourne

Here are six of at least 24 development sites purchased by Asian developers in the past two years. The projects are worth billions of dollars.

- Shanghai developer Richard Gu of the AXF group paid \$250 million for a site on the corner of Russell and Little Bourke streets, in the heart of



Chinatown. Believed to be planning a 60-storey tower.

- Another Shanghai developer, Jeli Xu of the Golden Age group, plans to build a 32-storey hotel and apartment block next to the old Naval and Military Club site in Little Collins Street.
- Being based in Bright Group is developing

ing a controversial township and apartment project on the Stonington mansion site in Malvern.

- Malaysian developers SP Setia plan to build 900 apartments at 151 Primbly Street.
- Singapore-based CEL Australia has proposed a 79-level tower at 120 Queen Street.
- Japan's province's IYZ Group is building the 400-apartment Lucia complex in Daly Street, South Yarra.



An artist's drawing of the Lucia complex in Daly Street, South Yarra.



Kenneth King and Sunny Lu take dozens of calls each day from Chinese investors eager to buy property in Melbourne.

PICTURE: MAL FAIRLOUGH

The land dragons



Using AirLink, focus your iPhone app on Sunny Lu to watch a video exploring the funding of Melbourne's lavish skyscrapers. Or watch it online on a tablet. See page 2 for AirLink instructions.

CEL Australia, a subsidiary of Singapore-based Cap Eng Seng Corporation Ltd, is now awaiting approval for the building from Planning Minister Matthew Guy.

Such mammoth projects are made possible by the deep pockets and long investment horizons of Asian investors combined with the flexible planning system introduced by the Kennett government in the 1990s to facilitate development. For example, no height limit applies at all on the Tower Melbourne site.

With billions of dollars of job-generating investment at stake, active developers are well aware they have bargaining power at all government levels. What government, after all, can resist mobile global money and the siren call of cash on the city skyline?

Xu is a developer and a restaurateur and nightclub owner. After a stint of suburban projects he is now building a 32-storey hotel and apartment complex on the former Naval and Military Club in Little Collins Street, and is soon to start construction on the Emerald apartments in Albert Road, South Melbourne.

While impressive locally, by Chinese standards such projects are small, and progress through planning and building is slow. "The door is just

"CBRE declared 2011 the Year of the Foreigner"

open to the Chinese developer," says Xu. "If the market continues to be positive, more people will come. Don't reject developers."

But that is what some voices, perhaps counter-intuitively, are calling for. Ken Ong, a Liberal Party stalwart from a Chinese/Malay background, is the Melbourne City Council planning chairman. He is urging the state government against succumbing to development pressure on projects that, he says, threaten the city's liveability.

"Yes, governments have to be aware of the possibility of investment going to NSW, Queensland or Western Australia. But we're Melbourne. We have the title of the world's most liveable city, which we would like to defend," says Ong, who has described Tower Melbourne as a "blight".

Ong's view is put even more firmly by Jason Yeap, a National Gallery of Victoria board member, lawyer and property developer who came to Melbourne to study from Malaysia in the 1970s.

Now an industrial player in Melbourne's business and art scenes, Yeap wants that wealthy Asian investors could push Victorian deregulated planning regime beyond what is good for the city. "Those high-rises don't resemble Australia. But they are permissible under the rules, and strongly think this is a wrong idea. It's doing something better."

Some in the industry believe established property entrepreneurs like Yeap—who have done well until now with a more conservative strategy—are feeling challenged.

He says the new investors are formidable competitors, but says his concern is for Melbourne. He warns that the new generation will push for the "maximum" from a site rather than the "optimum". It will take just a few more super-high-rise towers to destroy the character we have.

There's also a concern raised by the experience of countries including Singapore and Canada: Chinese-financed apartment towers have sparked planning controversy because

The land dragons take a liking to Melbourne

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of absentee investors who use the money of aspirants as a haven to park money, not to live in or to rent out.

Tony Crabb, national head of research for property consultancy Savills, says this has been an issue elsewhere. But he says the "ghost tower syndrome" should only be an issue in countries like Singapore, not Australia—where land supply is scarce. "If people want to buy an apartment and leave it empty, good luck to them. It generates money and jobs. Who cares?"

Yeap calls for leadership to protect Melbourne. "We need to be clearer about what we want and sometimes be prepared to say [to developers], 'perhaps you have gone too far. But we are tight-lipped. We are fearful the jobs will be lost.'"

If not tight-lipped, Australian political and business figures speak in hushed tones when the cultural and ethical challenges of the West doing business with the East are raised.

John Denton's involvement in China dates back to 1978. Experience taught him not to be surprised when a stranger turned up at his Melbourne office in November 2005. His company had just been shortlisted to design the national museum on Tanaman Square in Beijing.

"The next thing we had this Chinese guy on our doorstep saying, 'I can get you this job but you have to pay me this amount of money,'" Then, with a knowing smile: "We didn't get the job."

Denton learned that in China Western contracts meant little in serious business. Relationships, networks, gifts and commissions count for more, an ancient tradition known as *guanxi*. Literally translated as "relationship", *guanxi* refers to social and business networks built on gifts, favours and a "who you know is more important than what you know" principle. With *guanxi*, insider knowledge can be used legitimately.

Architect Bob Steen is one of the many Westerners to struggle with *guanxi* while trying to do business. "In mainland China there are gratuities paid for favours performed. It is part and parcel of doing business and I think you'll find that what we term

questionable practice would be standard behaviour in some areas."

In a recent academic paper, Canadian anthropologist Josephine Smart argues that in China *guanxi* has allowed people to build trust in the absence of formal legal and financial rules. But, says Smart, for many Chinese it is unclear "where to draw the line between 'good' *guanxi* and 'bad' corruption." Translated to Australia, with its requirements for arms-length assessment of permits, due process, appeal rights and transparency, *guanxi* has the potential to be problematic. That is especially so given the flood of Chinese money into property development.

As *The Sunday Age* reveals today, Melbourne city council planning chairman Ong has acknowledged being offered inducements by Asian developers. Ong has called for greater efforts by governments, foreign offices and business associations to help advise and educate newcomers about proper process here.

Chinese community leader and former Liberal senator for Victoria Teshin Chen has a message for his compatriots. "If their way of business beyond the accepted way of doing business in Australian society it will no longer be the safe and secure investment haven that attracted them in the first place," he says. Warnings of the kind issued by Jeff Xu—that the money will flow elsewhere—are hollow, he says.

But if Australia is to take the high moral ground on business etiquette, as well as development standards, its politicians may have to take some responsibility. Victorian politicians have chosen a system of campaign funding that sends confusing messages about favours to locals and newcomers alike. Victorian politics is dependent on corporate gifts. The biggest donors, besides unions, are always businesses as the mercy of government favour—developers, in particular.

Last week, *The Sunday Age* reported on requests made to developers in Melbourne, notable among them young newcomers from China, for donations in the tens of thousands of dollars in return for access to a re-elected council led by lord mayor Robert Doyle.

Says Chen: "If a politician actively goes out and seeks donations, it will be assumed you are trying to establish *guanxi*. If it is initiated by a politician, it will be assumed that it must be all right."

The line between Eastern and Western ways of doing business may be finer than we care to believe.



Shinghai Richard Gu, Melbourne developer.