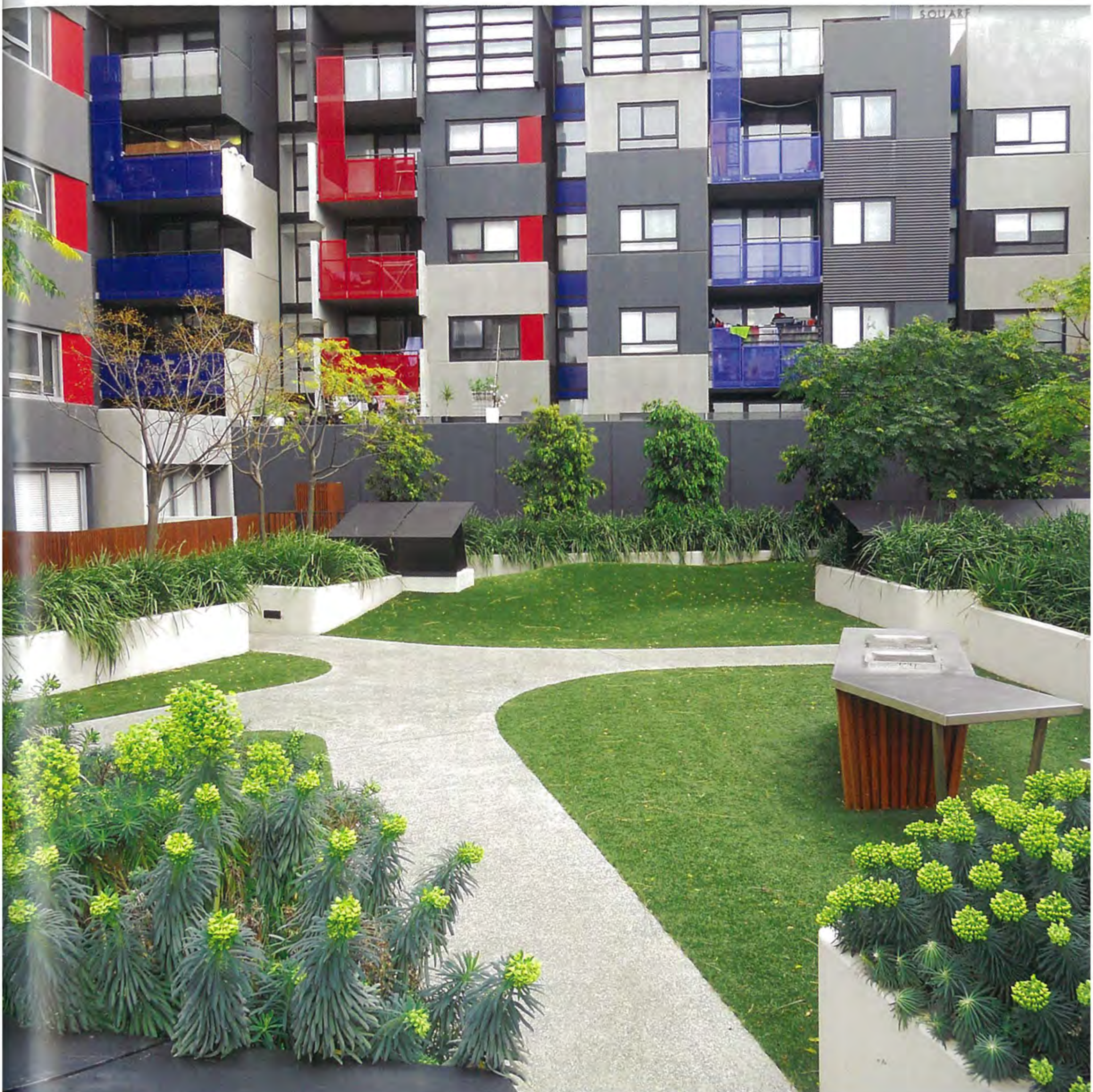
Australasian **Housing** Institute

# HousingWORKS

The Journal of the Australasian Housing Institute – linking housing workers in Australia and New Zealand

Volume 10 • Number 12 • March 2015



www.housinginstitute.org Printpost approved: PP255003/06839 ISSN 1448-3130

# Foreign Investment in Australian Real Estate...

## *A question of housing equity, not investor identity*

> *Dr Dallas Rogers from the University of Western Sydney discusses important findings from research into the effect of Chinese investment on Australia's property market.*

Recently, there has been much discussion about Chinese investors pushing up property prices and breaking the foreign investment rules. Some reports suggest that foreign investors account for around 15% to 20% of all new residential property purchases in Australian capital cities. Increasingly from 2012, many of these foreign investors were Chinese (Rogers, Lee, & Yan, 2015).

The move to introduce new fees and greater scrutiny of foreign real estate investors could be a political decoy (O'Dwyer, 2014). It draws attention away from Australia's unfettered commitment to offshore investment and the inequity of our domestic housing system.

In 2014, The House Standing Committee on Economics conducted a Parliamentary Inquiry into individual foreign investment in residential real estate. One of the contributing factors leading up to the Inquiry was the claim that Chinese investors were making Australian housing more expensive (Rogers et al., 2015).

A team from the University of Western Sydney conducted a study in 2014 on Chinese investment in residential real estate in Australia. Our research shows that, historically, domestic investment has had a far more significant impact on house prices (Rogers et al., 2015).

Nonetheless, I hoped the Inquiry would take a serious look at the relationship between housing affordability and foreign investment. The Inquiry's terms of reference put an end to that hope (Standing Committee on Economics, 2014).

The Inquiry's report recommended the foreign investment rules should be retained, largely as they existed before the inquiry (Standing Committee on Economics, 2014). Instead, the committee argued for a suite of fees and greater surveillance of foreign investors (O'Dwyer, 2014).

### Australia's foreign investment rules

The government's legislative framework for foreign investment in residential real estate in Australia allows for:

- foreign developers to build new residential dwellings for sale to domestic and foreign buyers;
- individual foreign investors and temporary residents to purchase new dwellings; and
- temporary residents with visas, which extend beyond 12 months and include many foreign student visas, to purchase one established home provided it is used as their principal place of residence while in Australia and is sold when they leave the country (Australian Gov., 2014).

The government's aim is to direct foreign capital into new housing stock, to increase housing supply and to boost employment across the real estate and property development sectors. The assumption is that increasing housing supply will put downward pressure on housing affordability.

On the back of the Inquiry, the federal government recently announced new fees of at least $5,000 for foreign buyers of Australian residential real estate under $1 million. For properties over $1 million, there will be an additional $10,000 for every extra million dollars in the purchase price. The government will also set up a new register to track offshore owners of Australian property (O'Dwyer, 2014).

"The assumption is that increasing housing supply will put downward pressure on housing affordability."

Within the global real estate sector, there are important differences between the various 'investor' and 'property' categories, such as:

- individual investors (e.g. individual foreign investors);
- institutional investors (e.g. insurance companies and sovereign wealth funds);
- residential property (e.g. a new residential dwelling);
- commercial property (e.g. a retail building); and
- agricultural property (e.g. a large cattle station).

Source: (Baum & Hartzell, 2012; Tiwari & White, 2010)

The largest global real estate investors are pension funds, insurance companies and sovereign wealth funds (Baum & Hartzell, 2012). They usually invest in commercial real estate but, more recently, they have shown an interest in agricultural assets (Tiwari & White, 2010). The media coverage of foreign investment in Australian real estate has largely focused on individual investors, mainly Chinese, and residential real estate (Rogers et al., 2015).

The government claims their foreign investment register will help catch the rule breakers (O'Dwyer, 2014). Apart from political point scoring, catching the rule breakers will have a marginal impact on the domestic residential housing market. It certainly will not address housing inequity in Australian cities.

"Removing the relatively small share of individual foreign investment from Australia's residential housing market would not address the trend for house price increases or inward urban migration."

### What about affordable housing?

While foreign investment might affect the supply of and demand for Australian housing in the long-term, and therefore housing prices, it does not necessarily follow that foreign investment is the sole or even a central cause of house price increases.

Our study showed that removing the relatively small share of individual foreign investment from Australia's residential housing market would not address the trend for house price increases or inward urban migration over time. This is important because these two factors contribute to the housing affordability problems in major Australian cities.

If we are serious about addressing housing affordability within the context of increasing foreign investment, we need to have a conversation about individual domestic and foreign investment in residential housing in Australia.

The recent Inquiry found foreign real estate investment is achieving its aim of increasing residential housing supply (Standing Committee on Economics, 2014). However, they did not outline what type of affordable housing is being supplied. Just because there are more houses in the real estate market doesn't mean that everyone will be able to buy or rent a house where they want to live.

> " If we are serious about addressing housing inequity in Australian cities, we cannot leave housing affordability to the market. "

Increasing housing supply, as a stand-alone aim, will not address the housing affordability problems in cities like Sydney and Melbourne. If we are serious about addressing housing inequity in Australian cities, we cannot leave housing affordability to the market. Focusing on the identity and actions of Chinese investors diverts attention away from this challenge.

The real question should be how to regulate domestic and foreign capital to achieve better housing outcomes for all Australians. The Inquiry failed to examine how to leverage offshore investment, to produce more affordable housing in Australian cities (Standing Committee on Economics, 2014).

## Policy implications

Australia's housing, immigration, financial and education systems are all implicated in foreign real estate investment. The actions of politicians and national and international housing, immigration and financial professionals are also implicated, in attracting foreign investors to our shores.

Foreign real estate investment is not just a housing policy issue or a foreign investor driven process (Rogers et al., 2015). The government's regulatory frameworks are heavily implicated in shaping foreign investment, so too are the global real estate industries (Baum & Hartzell, 2012; Tiwari & White, 2010).

We need a public discussion that accounts for more than housing policy and a narrative about invading Chinese investors. The circulation of global capital creates new winners and losers (Piketty, 2014). The Inquiry should have considered the use of property developer contributions and investor taxation settings to provide more affordable housing in Australian cities.

This type of discussion needs to include:

- financial policy: how should we manage global wealth accumulation and global capital flows through Australian assets by resetting the regulatory frameworks to introduce a progressive taxation system?
- visa and education policy: individual real estate purchases have become a way to obtain educational security for children studying abroad, a way to 'purchase' citizenship and a way to attract super-rich individuals and their money to our cities. How should we set these visa regimes in relation to Australian real estate?
- housing policy: how should we use domestic and foreign capital to achieve more sustainable social and housing outcomes in Australian cities?


## Acknowledgements

This article summarises the key findings from a 2014 study on Chinese investment in residential real estate, funded by the University of Western Sydney. The full peer-reviewed article can be found in the journal *Housing Studies,* at: Rogers, D., C. L. Lee and D. Yan (2015). 'The politics of foreign investment in Australian housing: Chinese investors, translocal sales agents and local resistance', *Housing Studies* (i-First).



**References:**

- Australian Gov. (2014). *Foreign Investment Review Board: Annual Report.* Canberra: Commonwealth Government.
- Baum, A., & Hartzell, D. (2012). *Global Property Investment: Strategies, Structures, Decisions.* Oxford: Wiley & Sons.
- O'Dwyer, K. (2014). *House Economics Committee Reviews Foreign Investment Laws.* Sydney: March 17: ABC.
- Piketty, T. (2014). *Capital in the Twenty-First Century.* London: Harvard University Press.
- Rogers, D., Lee, C. L., & Yan, D. (2015). 'The politics of foreign investment in Australian housing: Chinese investors, translocal sales agents and local resistance'. *Housing Studies,* i-First.
- Standing Committee on Economics. (2014). *Report on Foreign Investment in Residential Real Estate.* Canberra: Commonwealth of Australia.
- Tiwari, P., & White, M. (2010). *International Real Estate Economics.* Basingstoke: Palgrave Macmillan.



**Dr Dallas Rogers** is a lecturer in Urban Studies at the University of Western Sydney. He investigates the relationships between housing policy, housing actors, and poverty and wealth.

He has undertaken a critical analysis of Australian urbanism through fine-grained empirical research, with low income social housing tenants as well as super-rich transnational property investors and their agents.

His current research focus is on an examination of housing poverty and wealth in globalising cities.