Submission to the

House Standing Committee on Economics

Inquiry into foreign investment in residential real estate

Subversion of bipartisan foreign investment policy is distorting Australia's housing market

6 May 2014

1. Executive Summary

This submission demonstrates that foreign purchases of Australian Established Residential Property ("**AERP**") are a substantial contributing factor for runaway house price inflation, both due to the direct impact of exacerbating scarcity, and the feedback loop of Australians fearing missing out due to ever increasing foreign purchases. If the recommendations herein are *not* implemented then house prices will continue rising even faster than they otherwise would with the following "Top 10" consequences (expanded on throughout):

1. Increasing cost of living pressures;
2. Reduced disposable income (post housing costs), impacting retail sales, the services sector, domestic tourism etc;
3. Reduced competitiveness of Australian businesses, risking job destruction and reduced tax revenue in the medium and long term;
4. Widespread injustice will continue with Australians being outbid by foreigners on an uneven playing field;
5. Increased indebtedness of homeowners will increase the vulnerability not only of individuals but the broader Australian economy to negative economic shocks;
6. The risk of a large fall in house prices escalates, which would threaten the economy and the banking system;
7. A growing proportion of Australians will be priced out of owning a home in their own country;
8. Australian support for immigration may weaken;
9. Interest rates may need to rise, slowing business investment and economic growth; and
10. Australia misses out on the opportunity to channel foreign investment into developing new housing supply that generates jobs and economic activity.

The Appendix to this submission contains 13 pages of highly relevant, abridged and highlighted news articles on this subject just from recent months. It is included as evidence of industry participants highlighting the nature and scale of the problems identified in this submission, and also evidences the degree of public anxiety as to the issue.

Required reforms
First, the new visa class created in 2010 which allows foreigners to effectively buy Australian citizenship for the incredibly cheap price of *investing* (not paying) $5m - and perhaps as little as investing $1.5m, should be abolished immediately. This new visa is already beginning to have a damaging impact on Australia's housing market (set to get worse as its use becomes more widespread) and there are strong public policy considerations detailed below supporting its abolition.

Second, action must be taken to prevent the unscrupulous from using loopholes to subvert the existing framework which prevents foreign citizens owning/purchasing AERP. This includes removing the right of temporary residents to purchase AERP. Further related recommendations are detailed below.

Australia's immigration program has helped build modern Australia and it's important that it continue to be supported. There public policy grounds for preventing foreigners from purchasing Australian established residential property are overwhelming – this is recognised by all sides of politics, it's just that the existing (new) rules are failing to achieve this bipartisan policy objective.

The first news article in the Appendix dramatically increases the urgency of reform. It notes that Canada has just cancelled their visa category equivalent to our recently introduced 188 and 888 visa, following widespread public outcry that foreign purchasers had caused the Canadian housing bubble (Vancouver now has the most expensive property in the OECD). Per the article, experts predict that demand from foreign property investors will now be forced from Canada to Australia, exacerbating an already dire problem and making a policy response from Government urgent. In addition, Hong Kong and has recently imposed a 15% tax on foreign buyers to deal with this same issue, further funnelling foreign buyers into Australian property which is already in short supply.

2. What is current government policy and is there a problem?

Australian government policy correctly imposes barriers on non-Australian citizens from purchasing Australian Established Residential Property ("**AERP**"). FIRB states "It is the Government's policy that foreign investment in Residential Real Estate should increase Australia's housing stock." In this way foreigners cannot cause speculative housing bubbles and any investment "brings benefits to local building industry and its suppliers": https://www.firb.gov.au/content/real_estate/residential.asp

The changes called for in this submission are all directed towards **better meeting this existing bipartisan policy objective** by closing loopholes that are preventing the objective from being met.

There are very good policy reasons for this current policy approach, such as:

1. Channels foreign investment into developing new housing, which increases housing supply and avoids housing bubbles fuelled by foreign financial speculators
2. New dwellings create jobs and economic activity
3. It is not fair for Australian families to bid for established houses against foreigners who:
    a. Typically pay far lower taxes (eg 15% - 20% tax is common in places such as HK and Singapore) none of which have gone to the Australian government to fund services
    b. In numerous cases may have obtained their wealth through corruption (eg military or political contacts in countries with materially higher levels of corruption than Australia).

Although the third point is less applicable to source countries such as the US and Canada with similar tax levels and low corruption, the same rules should apply to all foreigners equally irrespective of their country. Although purchases from Chinese buyers have increased most rapidly[1] to now be #1 at $6.6bn pa (incl HK), the nationality of foreign buyers is irrelevant and it is regrettable that it has received excessive focus in the media.

FIRB 2012-13 Annual Report page 29 shows a ~700% explosion in foreign purchases of *established* residential property in the 3 years to 2012-13 and in news reports industry participants state this

[1] Juwai.com, the leading broker connecting Chinese buyers with overseas property claims that over the last three years, the number of Chinese buyers in Australia has grown nine-fold, faster than anywhere else.

has intensified during the 10 months since. Quoting an article below "FIRB simply rubber stamps applications. In 2011-12 FIRB refused only 13 applications… less than 0.01% of the total."

Chapter 2: Foreign investment proposals

Table 2.8: Investment in residential real estate by type of approval and number of proposals approved from 2009-10 to 2012-13

	2009-10		2010-11		2011-12		2012-13	
	No.	$b	No.	$b	No.	$b	No.	$b
Residential								
Developed								
- existing residential property	647	0.81	3,881	3.57	3,952	2.87	5,091	5.42
- annual programs	7	0.56	4	0.20	5	1.30	10	0.94
Sub-total 'Developed'	*654*	*1.38*	*3,885*	*3.77*	*3,957*	*4.18*	*5,101*	*6.36*
For development								
- vacant land	1,010	1.44	1,514	2.33	1,518	0.68	1,821	1.39
- new dwellings								
- individual purchases	1,937	1.20	3,911	2.46	4,022	2.54	4,499	2.91
- developer 'off-the-plan'	22	2.30	65	10.08	70	10.92	50	5.73
Sub-total 'new dwellings'	*1,959*	*3.50*	*3,976*	*12.54*	*4,092*	*13.46*	*4,549*	*8.64*
- redevelopment	92	0.34	171	0.45	191	0.50	189	0.36
- annual programs	8	2.11	10	1.83	10	0.89	8	0.41
Sub-total 'For development'	*3,069*	*7.39*	*5,671*	*17.15*	*5,811*	*15.52*	*6,567*	*10.80*
Total residential	**3,723**	**8.77**	**9,556**	**20.92**	**9,768**	**19.70**	**11,668**	**17.16**

Note: Totals may not add due to rounding.
The 2009-10 figures were impacted by changes to the screening arrangements for residential real estate, as announced in April 2010.

Credit Suisse forecasts "Asian" investment to "accelerate and hit $44 billion in the years ahead, putting upward pressure on local prices" (refer Appendix).

Worst impact on the homes Australians aspire to

Per the FIRB annual report, the average price paid by temporary residents for an established home in 2012-13 was $1.06m, about double what the typical Australian resident can afford. Even if they were only buying ~10% of established properties (still very substantial), if they're essentially only buying houses over $700k then they must be ~20% of buyers in the top half of the market (sources below cite 30%).

Direct impact of demand on price

To deny that allowing foreigners to purchase Australian property is to deny the law of supply and demand.

The question of price elasticity is crucial: if demand for BHP shares increased 20% and there was no extra supply of BHP shares (which is the case when established houses are bought), how much would the price rise? No one can credibly argue that the impact on price is not significant – in truth such a demand shock is likely to increase price by materially more than 20%. It's far worse with property because:

- share prices have some tether to future earnings, whereas the higher house prices go the more they demonstrate a track record of capital growth that encourages / pressures buyers into the market
- share investors can buy Rio Tinto or thousands of alternative shares if BHP gets too expensive; Australians cannot substitute buying a house in another country for buying an Australian property (Australians are forced buyers of a necessity)

Even *if* foreign purchases represented just 5% of 2013 sales (but therefore ~10% of sales above $700,000) the impact on house price inflation is far higher than 10%.

Some people seek to deceive by comparing the size of foreign purchases to total Australian housing finance. This is incorrect and misleading because the latter includes people refinancing, switching banks, etc.

Fear: the vicious feedback loop
In addition to the direct increase in house prices caused by foreign investment, there is a major factor amplifying the impact: fear. Fear that foreign demand will continue or accelerate, and so keep pushing house prices into the stratosphere. In the past 12 months there have been dozens if not hundreds of highly prominent news articles – most citing industry experts – documenting the role played by foreign purchasers in fuelling current house price inflation (a selection are attached for reference). Even if the House Committee wrongly concludes that the number of foreign purchases is too small to have a material impact on house prices, the onus will be on the House Committee to also declare that *fear* of accelerating foreign purchases won't itself cause significant house price inflation.

There are additional factors driving house price inflation, however escalating demand from foreigners and temporary residents is a major one, and one of the rare few which can be readily addressed with minimal drawbacks.

3. Abolish the newly introduced "Significant Investor" visas

In 2010 the previous government introduced two new visa classes: Significant Investor Visa 188 and 888 (temporary and permanent respectively). There is extensive anecdotal evidence and commentary from industry participants (refer Appendix) that these are leading to a flood of foreigners buying AERP, increasing house price inflation. Government must follow Canada's lead and cancel these two new visa classes.

These visas ultimately give away an Australian permanent residency visa to anyone who *invests* (not gives) A$5m within Australia (eg in govt bonds). This is insane. The world is awash with capital (thanks partly to most central banks printing endless billions of dollars) - there is no shortage of cash in Australia to invest. What's needed is good investment opportunities and confidence in the medium / long term business outlook. Australian cash balances on deposit at major banks are at a record high, corporate balance sheets are in rude health, there is trillions of superannuation money to deploy and cash can be borrowed at record low rates. A few extra million dollars invested does nothing to advance Australia's interests except reduce Australian government bond yields by a miniscule amount, below already historically low levels. Therefore the benefit to Australia from these new visas is negligible. Australians are smart and reasonably entrepreneurial – we simply need to unshackle our budding entrepreneurs. All that's needed is a more favourable environment for business (such as less red tape) to see new businesses flourish.

This visa destroys the incentive for Australians to work hard and get ahead. Why should someone put in all the hard yards, be successful, pay large amounts of tax and create jobs, only to then get regularly outbid at auctions for nice houses by foreigners who have not contributed to Australia in this way, who often may have acquired wealth through corruption and/or by paying ultra low rates of tax - none of which went to Australia. Desirable Australian houses should be a reward for Australians who put in the hard work and succeed – not trophies for foreigners who have not first contributed to Australia.

When foreigners and temporary residents buy up desirable Australian houses, the house price inflation trickles down to lower price brackets: the Australian outbid for a $1.5m house by a foreigner who pushed up the price instead buys a $1.2m house, and the Australian who would have bought that house is displaced into buying the house that would otherwise have sold for $0.9m etc. Ultimately, some Australians who would otherwise have bought a home are priced out of the market and have no choice but to continue renting - increasing the likelihood they'll require government support in retirement.

Numerous real estate agents in Sydney and Melbourne have each confirmed that foreign buyers are dominating the market for more desirable properties >$700k and pushing up prices by paying more than fair value. Numerous market participants are quoted in the attached articles confirming this. The new visas are regularly cited as a loophole of choice by real estate agents (along with purchases by or through temporary residents such as students).

4. Policy considerations

No rationale / misdirects foreign investment

Australia should continue to welcome foreign investment because in making cheaper capital available to businesses and for projects, foreign investment supports economic growth and therefore jobs, ongoing tax revenue etc. **This rationale is not applicable to foreign investment into *existing* Australian housing stock**: no jobs are created and no extra tax revenue is generated (beyond a one-off, *marginally* higher capital gain). Hence bipartisan government policy is to channel foreign investment towards new dwellings. The problem is there are too many loopholes preventing this objective from being met.

Hangover: Choking off disposable income will slow the Australian economy

If house prices (and therefore mortgages and rents) were lower (or increased slower), Australians would have more disposable income (eg boost retail sales, services sector, domestic tourism etc). Conversely if house prices keep rising at 10%pa then rents and mortgage costs will rise, choking off spending throughout the rest of the economy.

Exacerbating cost of living pressures

The typical Australian family spends more on rent / mortgage costs than any other category. **No political party can claim to be serious about tackling cost of living pressures while allowing the cost of housing to continue hurtling into the stratosphere**, particularly when government policies allowing foreign purchases of Australian homes are a major cause.

Sugar hit gives way to medium / long term pain

The RBA may be correct to argue that the 14% increase in Sydney house prices might do some good in bolstering consumer confidence to spend using their house as an ATM. But this is short term and a one-off that might last 12 months or so. Thereafter, Australia is burdened with the hangover: high house prices that require high wages (crushing competitiveness - see below) and heavily indebted consumers (reducing disposable income) – both of which crimp growth in the medium to long term.

If house prices keep rising unsustainably at 10%+ pa then the RBA will be forced to increase interest rates – ie the real Australian economy will suffer (including job losses) due to temporary residents pushing up house prices.

Moral hazard – Teaching young Australians to take on too much debt
Prices need to be allowed to fall sometimes – this teaches people to be prudent with how much debt they take on to purchase property. When governments intervene to stop prices falling (as during the GFC) it teaches people "property never goes down so it's safe to borrow too much" which accelerates house price inflation (and increases the vulnerability of homeowners and the economy to negative economic shocks).

Creating shortages and risking zombie cities
There is widespread anecdotal evidence in Australia and Canada that often properties purchased by foreigners or temporary residents are left empty, exacerbating housing scarcity and forcing up rents. In a recent article in the Vancouver Sun entitled "Vancouver planner Andy Yan fights to prevent a 'zombie' city" Yan noted that "High real estate and living costs, plus tepid wages, means Vancouver is losing talented young people to more affordable places such as Calgary and New York. Local businesses, universities and medical centres are unable to attract top employees." As he notes "These non-resident-occupied" condos fail to contribute to a vibrant community or support businesses."

Dangers of being last to tighten our rules
Most other developed countries do not allow foreigners to own residential property, and more are moving in this direction (eg Canada and Hong Kong). The concept of allowing foreigners to buy Australian citizenship cheaply and muscle out Australians for sought-after homes threatens public support for immigration and will continue to drive negative headlines about foreigners driving up house prices out of reach of Australians. The article above states that most regions where real estate is "internationally desirable" have already acted, including: Florida, Austria, Prince Edward Island, Manitoba, Denmark, Japan, Indonesia, Bali, Thailand, Turkey, Singapore "and a host of others". That is, foreign demand is getting funnelled into fewer and fewer countries.

Exposed to the risk of a China property crash
Shanghai property prices are now astronomically high (approx ~20x income) and this is now seen as a crises not just for China but for the world economy due to the risk of a China credit crunch / property bubble collapse. Credit Suisse equities strategist Hasan Tevfik and Westpac senior international economist Huw McKay correctly identify that a pullback in Chinese property prices would see an in-rush of demand into Australian housing, seen as a relative safe-haven.

> "Residents in Sydney and Melbourne are understanding that the rules of property prices are changing and should expect even more demand for local real-estate from Chinese investors as they look for a more stable store of wealth. Globally desirable cities, like the major ones in Australia, will always be destinations for foreign capital": Hasan Tevfik.

Incumbent on Govt to manage the risk of a housing bubble
Governmentt must not simply 'do nothing' until our property market reaches equivalent crisis levels. When a housing bubble bursts the effects are catastrophic (prevention is far better than cure). With private investment in freefall over the next 2.5 years as the mining construction boom

ends, the impacts of a bursting housing bubble on the Australian economy would be even more catastrophic. The gravity of the consequences warrant prudence now to prevent this from happening. If one wants to encourage the construction industry there are far more effective and direct measures available, other than inflating the price of the entire Australian housing stock which has incredibly damaging consequences and exposes the Australian economy to tremendous risks

4.1 High house prices damage Australia's competitiveness

Lower house prices (or house prices that increase slower rather than faster) would make relatively lower wages viable, increasing Australia's competitiveness, without reducing living standards. Let me explain.

We can all see that high Australian wages are one important factor causing many Australian businesses to close due to being uncompetitive. However it's hard for wages to fall in real terms while house prices (and therefore rents) are so high. If house prices fell, then workers would need to pay less in mortgage / rent costs – meaning they could afford to accept a lower wage job while still maintaining the same disposable income: the worker would be no worse off but an Australian company might stay in business through being more competitive with lower labour costs. To illustrate: one reason cars can be made in the US but not Australia is that US workers can tolerate much lower wages because their house prices are far lower (outside NY, LA etc) – ie same living standard but US businesses can compete but we can't because of high house prices.

<u>Government policies which underpin rapidly rising house prices (such as loopholes allowing temporary residents to buy established residential property) are crushing the competitiveness of Australian businesses over the medium to long term, and thereby destroying jobs and tax revenue.</u>

4.2 Equity / In search of a level playing field

The supply of established Australian houses is essentially fixed, at least in the short term (in the medium to long term apartments and outer suburban houses can be added - with long commute times and which require expensive infrastructure investment). Therefore, every purchase of AERP by a foreigner displaces an Australian from purchasing AERP. Rapid house price growth, fuelled in no small part by foreign purchases of AERP, is pricing vast numbers of Australians out of owning their own home.

Greater home ownership by Australians should be an objective of government policy as an end in itself - or at the very least government policies should not work against this.

Many would-be foreign purchasers of Australian homes have built their wealth through legitimate means. Equally, many foreign purchasers of Australian homes reside in countries:

1. Which rank low on independent indexes of corruption;
2. Where personal tax rates are very low (eg <20% in Singapore, 15% in Hong Kong etc); and/or
3. Have a culture in which tax avoidance is rife.

Why should law-abiding Australian citizens paying say 46.5% marginal tax to the Australian government to fund our schools and hospitals, get outbid at a house auction by a foreigner who may or may not have earned his/her wealth legitimately, but in any event is only having to pay 15-20% tax (none of which funds Australian govt services). This is galling. People paying only 15% tax should be competing against other property buyers paying 15% tax – ie in HK. It's not about race, it's about a level playing field. Where even one family misses out on their dream home in this manner, it is a gross injustice. For such injustices to be happening on a widespread scale across Australia is to our national shame and demands immediate government action to level the playing field.

Quoting an article below:

- "Every weekend in Sydney, young Australian couples are turning up at auctions excited at the prospect of finally owning their own home, only to find that other bidders are wealthy foreign buyers with money to burn."
- "[H]ousing is not just another asset. It's where people live, put down roots, raise families and join in their communities".

5. Politics

Implementing these recommendations would be politically popular for numerous reasons:

- You would win support from millions of Australians who feel that they are being priced out of the Australian dream of home ownership, partly due to foreigners buying up (well documented in the media)
- Many Australians believe "Australian houses should first and foremost be for Australian residents" not for rich foreign financial speculators

This issue was regularly reported in the media from 2010 – 2013, but coverage has exploded in the last 6 months across all channels / mastheads. Every Australian is aware of this issue. Articles on this issue regularly get hundreds of reader comments, which run ~95% outraged that the government is allowing this to happen. The calls in these articles for Government to "do something" are growing louder and louder.

6. Who loses if these recommendations are implemented?

Wealthy foreign speculators will have one less asset class to pick from, and/or would need to rent a holiday home in Australia rather than own.

House prices might stop rising so quickly or could even fall slightly. If house prices started falling significantly, I believe this would be good for the economy for the reasons stated above and should be allowed to happen (house prices need to fall occasionally to remind people it's risky, to deter them from borrowing excessive amounts and fuelling unsustainable price bubbles). However if government wanted to stop house prices falling there are any number of levers government could pull to reverse this.

The vast majority of Australians wouldn't suffer if their house was worth 5% less overnight (this is illustrative – it's not suggested that this proposal would cause a 5% price drop). If they sold it for 5% less they could buy somewhere else for 5% less and be no worse off.

7. Some claim this issue is about xenophobia?

Wrong. It's a recognition of bipartisan policy that established Australian houses are primarily for Australians who *need* a home to raise a family. Foreign investment that adds to supply is welcome but not foreign investment that displaces Australians from established properties.

There is no place for racism or xenophobia in this debate. Nor is there any place in this debate for those who try to shut down discussion of important public policy issues by smearing participants as racist in an attempt to silence viewpoints they don't agree with.

There is reason to suspect that much US / Canadian investment into Australian property is actually foreign domiciled property groups buying / developing office towers, hotels, etc (but ask FIRB who don't share that level of granularity). (Note that Canadian purchases doubled in last 12 months per FIRB – query if much of this is driven by foreign holders of Canada's Significant Investor Visa that Canada just stopped granting due to widespread concerns that foreign investors had used these inflate the world's largest housing bubble in Vancouver.)

Australian policy does not and should not discriminate based on the country of the foreign purchaser. In recent media headlines, the excessive singling out of Chinese buyers is inappropriate and wrong, but perhaps not surprising given:

- They're now the largest foreign purchaser ($5.9bn mainland China + $0.65bn HK = $6.6bn in 2013 per FIRB) and growing most rapidly (with that growth coinciding with the recent surge in Australian house price inflation)
- Enormous and growing cashed up middle class, many of whom aspire to Western lifestyle but the rules are getting tightened against them buying other desirable countries, channelling their demand into Australia, a far smaller market – this lends itself to public fear
- Widespread reports of Chinese buyers being conspicuous for paying well over fair value
- US & Canada have similar tax rates meaning the playing field is level for Australians trying to compete

However this issue is not about China or any other large source country – it's about supply and demand for Australian housing; the source country of investment is essentially irrelevant. What IS relevant is the 700% increase in foreign purchases of Australian established homes in the three years to 2012-13 (per FIRB above), the forecasts for this to continue escalating and the effect this is having on housing affordability and the risks posed to the Australian economy.

8. Why should government interfere in the housing market?

It already is! Government policy is a major determinant of the level of house prices in Australia, through policies such as:

1. Negative gearing
2. 50% CGT discount
3. Various first home buyer grant schemes
4. Allowing temporary residents to own Australian established residential property (creating extra demand and soaking up supply)
5. Various housing and urban development policies
6. Immigration numbers (a major determinant of demand for housing)
7. Land tax and stamp duty rates

This submission doesn't entail government *beginning* to regulate the housing market: rather this submission seeks to ensure that the existing policy objectives actually be met through closing loopholes that are subverting bipartisan foreign investment policy.

9. Reforms required

1. Abolish the new Significant Investor Visa categories immediately

The new visa class should be abolished for all the reasons above. At an *absolute minimum*, foreigners should have to invest ~$50m rather than $5m to obtain the visa and/or the number of such visas should be capped at say the ~20 most worthy applicants each year. Where not entirely abolished, people holding these visas should not be entitled to buy AERP (there are lots of high quality homes they can rent).

2. Close the loopholes

The bipartisan policy objective is not being met because there are too many loopholes (see eg the news articles below). These need to be closed. Policy changes should include:

a. Given widespread anecdotal evidence and evidence from industry players of rorting, Temporary Residents should only be allowed to purchase new / unoccupied dwellings and not established / second-hand dwellings
    - Vast numbers of Australians rent and there is no reason why temporary residents cannot also rent for the period they're here (especially students)
        - Per FIRB above, the average foreign purchase is $1.06m - why does Australian government policy allow ~$1m existing homes to become accommodation for temporary foreign students rather than housing Australian families who are being priced out of the market and forced to endure ever longer commutes to work?
    - This would encourage greater development of new dwellings, stimulating the construction sector and adding to housing supply
    - Allowing temporary visa holders to buy just creates too much scope for flouting bipartisan government policy against foreigners buying AERP
    - It may not be possible to stop foreigners subverting government policy by buying through a friend or relative who is an Australian citizen, but at the least stopping this happening through temporary visa holders will address much of the mischief
        - As a fallback, allow Temporary Residents to buy established properties only where it's from a departing Temporary Resident

b. Blanket ban on foreign non-residents buying AERP (it's understood that FIRB may sometimes give approval)

c. Article: "A FIRB official told The Australian that temporary residents are still "expected" to sell a property when they return overseas, even though there is no longer any legislative requirement, and the FIRB can no longer identify who has bought a property." Such legislation/regulation should be passed immediately and applied to all those who have bought based on a FIRB requirement to divest. Data matching should be done based on airport departure cards and where temporary visa holders depart for >6 months their obligation to sell should be mandatorily enforced.

d. To close the loophole cited so often by industry participants (refer Appendix), regulations should prevent Australians from buying Australian established property on behalf foreign investors (ie where the foreigner provides the funds and there is an agreement / understanding that the foreigner is the true economic owner). This might be hard to enforce but may at least deter, particularly where the penalty is forfeiture. If we all agree with the bipartisan policy outlined above, then there can be no objection to closing a major loophole like this.

10. Conclusions and some key questions

This submission has demonstrated that foreign purchases of AERP are a substantial contributing factor for runaway house price inflation, both due to the direct impact of exacerbating scarcity, and the feedback loop of Australians fearing missing out due to ever increasing foreign purchases. If the above recommendations are *not* implemented then house prices will continue rising even faster than they otherwise would with the following "Top 10" consequences:

1. Increasing cost of living pressures;
2. Reduced disposable income (post housing costs), impacting retail sales, services, domestic tourism etc;
3. Reduced competitiveness of Australian businesses, risking job destruction and reduced tax revenue in the medium and long term;
4. Widespread injustice will continue with Australians being outbid by foreigners on an uneven playing field;
5. Increased indebtedness of homeowners will increase the vulnerability not only of individuals but the broader Australian economy to negative economic shocks;
6. The risk of a large fall in house prices escalates, which would threaten the economy and the banking system;
7. A growing proportion of Australians will be priced out of owning a home in their own country;
8. Australian support for immigration may weaken;
9. Interest rates may need to rise, slowing business investment and economic growth; and
10. Australia misses out on the opportunity to channel foreign investment into developing new housing supply that generates jobs and economic activity.

In the event that the House Economics Committee (or any sub-group) *does not* recommend that the above changes be implemented, it would be appreciated if your report answered the following core questions:

1. What evidence is there that the rapidly growing demand for Australian houses from foreigners is *not* having a substantial impact on house price inflation?
    - Even if the direct impact on house prices was modest (which it's not), what evidence is there that media headlines about rapidly escalating foreign purchases aren't alone causing Australians to push up house prices out of fear of missing out, and is it wrong to allow foreign purchases to scare Australians into taking on more debt than they are comfortable with?
2. On what basis are you reasonably sure that foreign purchases of Australian houses won't accelerate in coming years, even where other countries continue taking steps to limit foreign purchases?
    - Credit Suisse forecasts "Asian" investment to "accelerate and hit $44 billion in the years ahead, putting upward pressure on local prices"
3. How does allowing foreign students to purchase $1m+ established homes rather than rent accommodation advance Australia's interests and outweigh the detriments identified?
4. Should Australian citizenship be available to anyone with the resources to *lend* just $5m (in some circumstances $1.5m) briefly and of what economic value is this to Australia?
5. Irrespective of the limited availability of empirical data, what reasons are there to *not* close the identified loopholes which are subverting Australia's bipartisan foreign investment policy?
6. If house prices continue to escalate rapidly, what impact will this have on the competitiveness of Australian businesses and the jobs and tax revenue that depend on them?

Urgent action required

Experts expect Canada's recent rule change, China's ban on owning more than one investment property and Hong Kong's new 15% tax to cause a flood of foreigners seeking to purchase Australian property – this makes a response from government **urgent**.

Please take a few minutes to read at least the top five articles highlighted below.

Thank you for considering the serious issues canvassed by this submission and I look forward to reading your report.

Sincerely,

P Sutton

Submission to House Standing Committee on Economics:
Inquiry into foreign investment in residential real estate

Appendix:

Sample of relevant news articles (abridged and highlighted) containing evidence of industry participants

Shunned Chinese buyers to turn from Canada to Australia

February 24, 2014 - 2:20PM. This was the #1 item on the SMH website on Monday 26 Feb 2014

http://www.smh.com.au/business/china/shunned-chinese-buyers-to-turn-from-canada-to-australia-20140224-33ca8.html

Patrick Commins

Canada's government recently made an abrupt decision that could have repercussions for Australia's already overvalued residential property market.

Canadian Finance Minister Jim Flaherty on February 11 announced that a 28-year-old visa scheme designed to attract wealthy foreigners to the country would be axed, effective immediately.

Under the now defunct Immigrant Investor Program, as long as you had a cool $C1.6 million ($1.6 million) in net assets, then all you needed to do was lend the Canadian government $C800,000 for five years on an interest-free basis and you were assured permanent residency for you and your family and a fast-track to citizenship.

The decision raised some eyebrows, not least because preceding the decision there had been growing chatter that the country's already expensive housing market was being inflated even further by a wave of wealthy Chinese entrants into the country, and in Vancouver in particular.

At the time the immigration scheme was axed, there was a backlog of 65,000 applicants, of which 45,500 were mainland Chinese – and 80 per cent of those were bound for the province of British Columbia, according to analysis by the *South China Morning Post*.

Indeed, *The Economist* rates Canada's residential property market as one of the world_s most expensive. The magazine's analysts say housing is 76 per cent overvalued against long-term averages on a rental basis – the highest among the 23-country league table – and 31 per cent against disposable incomes.

The ratio of Canadian household debt to GDP has risen to almost 100 per cent, and has grown at the fastest rate in the world since 2006, according to the World Bank. In April 2012, the former governor of the Bank of Canada, Mark Carney – now the head of the Bank of England – warned of the risks of foreign capital inflating the housing market.

More buyers to look in Australia

…All this might be sounding familiar to Australians, particularly those who have been house hunting in Sydney, where anecdotal evidence suggests auctions in some areas have been heavily attended by wealthy Chinese buyers willing to pay lofty premiums.

And the decision by Canada to restrict access to such rich individuals can only boost interest in our market.

Research by HSBC Bank suggests more than one-third of affluent Asians own overseas property, and that our market is the number one destination for further investment. Of the wealthy mainland Chinese surveyed by HSBC, 9 per cent owned property in Australia, while of the respondents from Hong Kong, 10 per cent did.

Of the rich Indians surveyed 18 per cent owned Australian property, 19 per cent of Indonesians and Singaporeans, 26 per cent of Malaysians, and 5 per cent of wealthy Taiwanese.

But while home buyers may complain, it's great news for local property developers, such as the listed Australand.

It revealed in its annual results on February 17 that it sold about 15 per cent of its residential developments to offshore investors in 2013, primarily mainland Chinese, almost double the historical average of 8 per cent.

The sales were made through its Hong Kong office, which Australand opened some 10 years ago. The company said it expected demand from that segment to remain at the same level in 2014.

But on the evidence of growing overseas interest in grabbing a slice of the Australian dream, that may be a - conservative view.

Foreign demand is making Sydney's housing problem worse

Clive Hamilton

theguardian.com, Tuesday 18 February 2014 10.04 AEST

http://www.theguardian.com/commentisfree/2014/feb/18/wealthy-chinese-buyers-are-making-sydneys-housing-problem-worse

Every weekend in Sydney, young Australian couples are turning up at auctions excited at the prospect of finally owning their own home, only to find that other bidders are wealthy foreign buyers with money to burn.

Last year, median house prices in Sydney rose by a crazy 15%, in some suburbs by up to 27%. Cash pouring in from China is one of the principal drivers and this flood of unregulated investment, coupled with other factors driving up Sydney house prices, are slowly changing the city's social fabric in a way that will be felt for generations to come. Couples planning families can no longer afford to buy in the suburbs where they grew up, where they have built friendship networks or where they work. Forced further and further west and south, they are progressively cut off from their old neighbourhoods.

Watching weekly auctions, one real estate agent from northern Sydney told the Australian Financial Review that some Australians were "sick of going to auctions and being outbid by Chinese buyers paying above the odds." Anecdotally, the Herald recently reported an auction for a Chatswood apartment at which all 16 registered bidders were ethnic Chinese. At another auction in Eastwood, all 38 registered bidders were Asian, according to the estate agent John McGrath. The property sold for $1m above the reserve price.

Of course, the real estate agents aren't complaining; in a booming market, they share in the spoils. Savvy agents are now travelling to China to talk up Sydney properties and advertise homes in Mandarin. Prominent agent Ray White has set up an office in Beijing, from where they boast they now "catch all the best fish".

Juwai.com, the leading broker connecting Chinese buyers with overseas property, estimates that 63m Chinese are rich enough to buy property abroad. It claims that over the last three years, the number of Chinese buyers in Australia has grown nine-fold, faster than anywhere else. For wealthy

Chinese looking for a safe haven, both for their money and for themselves, it is hard to go past Australia.

The impact of those buyers on Sydney property has only just begun. As the value of the dollar falls, foreign buyers will be paying less for Sydney real estate, and the Chinese government is relaxing restrictions on Chinese citizens wanting to buy overseas assets. Real estate agents report that Chinese buyers often buy several apartments in a new development as a family group. Joseph Ngo, an agent for LJ Hooker in Glen Waverly, said that paying $100,000 to $200,000 over the market price “is not a problem for these buyers”. The same is happening in Melbourne, if not quite at Sydney’s intensity.

Under Australia law, foreigners are not permitted to buy second-hand homes, unless an exemption is granted. They may buy new dwellings but must obtain approval from the Foreign Investment Review Board (FIRB). But the FIRB simply rubber stamps applications. In 2011-12 it refused only 13 applications (down from 43 a year earlier), less than 0.01% of the total. In 2011-2012, the FIRB approved $4.2bn of Chinese spending on Australian residential and commercial real estate. It has yet to publish figures for 2012-2013, but agents say inquiries from clients of Chinese origin have doubled over the last year.

A good deal of secrecy surrounds the trend, yet observers know something worrying is happening. The Reserve Bank of Australia (RBA) is one, quietly investigating why Sydney house prices are rising much faster than bank mortgage lending. After all, its concern is understandable. Housing bubbles keep economic managers awake at night; a bust brings everyone down.

So why is the Australian government allowing this to occur? Even the government of Hong Kong, concerned that mainland Chinese investors were pushing up housing prices, slapped a 15% tax on outside buyers. It worked, immediately causing cashed-up Chinese investors to look further afield, including Australia.

While not the only factor driving up house prices – negative gearing has a lot to answer for – the impact of Chinese investment has been substantial. Treasurer Joe Hockey could stop it tomorrow if he chose to. He could, for example, instruct the FIRB to put away the rubber stamp and apply the public interest test. In granting approvals, the FIRB is required to consider the impact of each investment on the economy and the community.

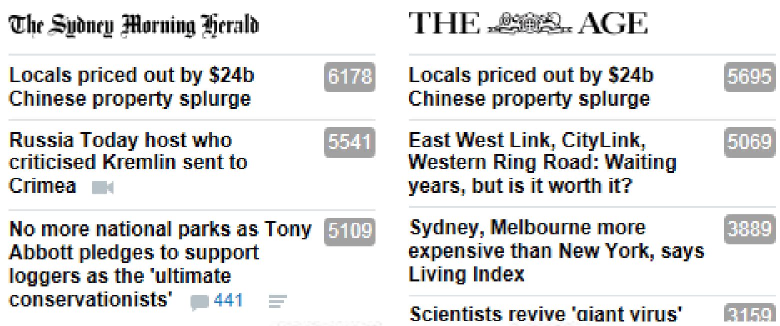
It’s one thing to allow unrestricted foreign investment in businesses, and a case can be made that selling Australia’ s mineral resources to China has little downside. But housing is not just another asset. It’s where people live, put down roots, raise families and join in their communities. Some experts in China believe that the rush of Chinese investment into Sydney property over the last couple of years is “just the tip of the iceberg”. A prudent government would see where we are headed and take steps now.

Submission to House Standing Committee on Economics:
Inquiry into foreign investment in residential real estate

Locals priced out by $24b Chinese property splurge

http://www.smh.com.au/business/property/locals-priced-out-by-24b-chinese-property-splurge-20140305-346hd.html

March 5, 2014 - 1:18PM (#1 on both SMH and The Age)



The Sydney Morning Herald

Locals priced out by $24b Chinese property splurge	6178
Russia Today host who criticised Kremlin sent to Crimea	5541
No more national parks as Tony Abbott pledges to support loggers as the 'ultimate conservationists' 441	5109

THE AGE

Locals priced out by $24b Chinese property splurge	5695
East West Link, CityLink, Western Ring Road: Waiting years, but is it worth it?	5069
Sydney, Melbourne more expensive than New York, says Living Index	3889
Scientists revive 'giant virus'	3159

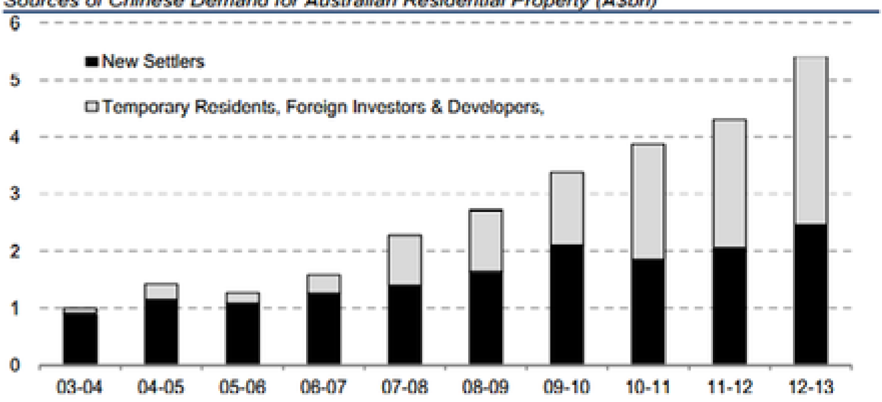
THE AGE
INDEPENDENT. ALWAYS.

Finding an affordable home in Sydney or Melbourne is only likely to get harder, with wealthy Chinese investors forecast to continue to pump money into Australian properties.

A generation of Australians are being priced out of the property market.

There are currently 1.1 million millionaires in China who could easily afford properties in Australia's two most expensive markets, Credit Suisse says in a research note.

Figure 1: The Chinese want to buy your house
Sources of Chinese Demand for Australian Residential Property (A$bn)



Source: Foreign Investment Review Board, Australian Department of Immigration, Australian Bureau of Statistics, Credit Suisse estimates

Submission to House Standing Committee on Economics:
Inquiry into foreign investment in residential real estate

"A generation of Australians are being priced out of the property market. Many face a life time of renting," Credit Suisse analyst Damien Boey said.

Using data from the Australian Bureau of Statistics and the Foreign Investment Review Board, Credit Suisse estimates the Chinese are buying 18 per cent of the new dwelling supply in Sydney, and 14 per cent of the supply in Melbourne.

Wealthy Chinese buyers have purchased $24 billion of Australia housing in the past seven years, and over the next seven years an additional $44 billion will be spent on residential property, Credit Suisse estimates.

"While Australia has some of the most unaffordable housing in the world, further strong Chinese demand can push prices even higher," the investment bank said.

That doesn't bode well for first-home buyers who struggle to break into the market. First-home buyer activity, as a proportion of total borrowers, is near record lows at 12.7 per cent of total loan approvals, according to the ABS.

First-time buyers in February comprised less than 10 per cent of all mortgages processed by mortgage broker AFG for the first time since June 2010.

The numbers are the most dramatic in NSW where first-home buyers make were responsible for just 3.4 per cent of AFG mortgages, down from an already very low 4.5 per cent in February last year. Victoria's first-home buyers took out 10.3 per cent of mortgage, down from 17.1 per cent last February.

Over the last 12 months, property prices in capital cities have jumped 10 per cent, according to the RPData-Rismark home index.

The rise was most severe in Sydney, where prices rose 14.6 per cent, pushing the median house price to $746,640.

Chinese buyers are currently spending $5.4 billion a year on Australian properties, Credit Suisse said, with the split relatively even between new settlers and others, which include investors, developers and temporary residents.

"The combination of rising income levels, lower capital barriers and further ease of doing an international property transaction should ensure there will be even more demand from the Chinese in years ahead," Mr Boey said.

Adding to the purchase of new property, the latest FIRB report showed in financial 2013 that there was a total of 5101 approvals to buy existing property worth $6.36 billion, which was up more than 50 per cent from the previous year.

In the year ended June 30, 2013, there were no rejected proposals in the real estate sector, compared with 13 in the prior year.

In total, there was $51.9 billion in approved investment in property, with $5.9 billion coming from China, a 42 per cent increase from the year before.

Credit Suisse estimates that the Chinese are buying 18 per cent of all new homes in Sydney, and 14 per cent of all new homes in Melbourne.

Asian appetite for Australian houses tipped to grow

http://www.smh.com.au/business/the-economy/asian-appetite-for-australian-houses-tipped-to-grow-20140506-37tmk.html

May 6, 2014 - 3:46PM

Bianca Hargte-Hazelman

The pace at which Asian investors have been snapping up Australian property is expected to accelerate and hit $44 billion in the years ahead, putting upward pressure on local prices.

The staggering figure, predicted by Credit Suisse comes as global investment manager Nomura warned on Tuesday that China's property market is headed for a correction and economic growth will slow to around 6 per cent, unless the government steps in.

"We argue the correction has been triggered by monetary policy tightening since mid-2013 and that the downtrend will continue unless policy tightening reverses into loosening," Nomura research analysts said in a report on Chinese property.

Credit Suisse equities strategist, Hasan Tevfik said a lack of momentum in Chinese property means that the Australian housing market is likely to become even more attractive in the short term.

"Residents in Sydney and Melbourne are understanding that the rules of property prices are changing and should expect even more demand for local real-estate from Chinese investors as they look for a more stable store of wealth. Globally desirable cities, like the major ones in Australia, will always be destinations for foreign capital," he said.

The median house price in Sydney - the most expensive capital city on average, now stands at $800,000.

Credit Suisse expects that the Chinese will purchase $44 billion of Australian residential property between 2013 to 2020. This is up from $24 billion over the past seven years.

"Our forecasts already assume the amount of Chinese wealth creation slows materially, in-line with a less buoyant Chinese property market. We need to forecast more extreme distress in China for us to lower our longer-term assumptions on flows into Aussie residential property," said Mr Tevflik.

A string of economic data shows that China's property market has been slowing with prices falling and investment growth turning negative in four of China's 26 provinces in the first quarter of this year, while in two provinces it fell by 25 per cent compared to the same period the year before.

By comparison, Australian property prices have been gradually increasing, albeit at a slower pace last month, largely due to the support of record low interest rates at 2.5 per cent, demand outstripping supply and a flood of Asian buyers.

Westpac, which on Tuesday launched a new monthly report that aims to fill the information gap on the Chinese consumer, also expects Asian appetite for Aussie property to increase if China slows further.

"When the Chinese property market is not doing as well, and Mainland investors they decide to move their funds elsewhere, foreign real estate is seen as a very safe alternative," said Westpac senior international economist Huw McKay, adding that Australian property remains hugely popular among international investors.

Urbis chief economist Nicki Hutley said the prospect of much slower growth will have further implications for Australia, because of our reliance on export growth for our own gross domestic product (GDP) over the next couple of years in particular.

"There is still a lot of Chinese money looking for a place to rest, and buying a place in major cities is underpinned by more than just expected returns. It might be about buying your kid a place at an educational institution for example. So I don't think we'll see a major pull back there, although the recent anecdotal evidence is that demand has come off a little in the past month or so anyway," said Ms Hutley.

Housing investment has been a big driver of growth in China, particularly as the economy transitions away from growth led by infrastructure investment towards one of consumption.

While the Chinese government predicts that GDP – a key measure of growth – will run at an annual pace of around 7 per cent this year, significantly higher that most of the developed world, including Australia, the impact of a slower property markets could force growth to slow at a faster pace and this would spook global sharemarkets and commodity prices.

Already this year, expectations of falling steel demand from China has weighed on iron ore prices, which are down over 20 per cent since the start of this year.

Australia is one of the biggest suppliers of iron ore to the Chinese market, and this alone has been commonly sighted as one reason why Australia remained relatively sheltered from the effects of the financial crisis.

Nearly 70 per cent of family assets in China were tied up in the housing market last year, according to Bloomberg. Mortgage debt in China is estimated at a 30 per cent share of disposable income, up from 18 per cent in 2008, Bloomberg reported earlier this year…

RBA playing a dangerous game with housing

March 6, 2014

Stewart Oldfield

http://www.smh.com.au/business/rba-playing-a-dangerous-game-with-housing-20140305-347h8.html

Affordable property plays a crucial role in the health of any vibrant society. *Photo: Louie Douvis*

Australia and Hong Kong are consistently judged to have among the most open economies in the world but they have responded very differently to booming housing prices.

In the past two years Hong Kong has introduced a range of measures aimed at cooling its domestic property market, including a 15 per cent tax on property purchases made by foreigners and a doubling of stamp duty that applies to everyone except permanent residents who are first-time buyers.

It has had an impact. From January to October 2013, the total number of home sales in Hong Kong plunged 40.5 per cent compared with the same period a year earlier. Economists are forecasting residential property prices in Hong Kong will decline by about 10 per cent in 2014.

Meanwhile, over the North Pacific, Canada has just said a 28-year-old visa scheme designed to attract wealthy foreigners to the country is to be axed, amid growing fears of a housing bubble.

Back in Australia, where, for instance, the median price of an apartment in Sydney is now $530,000, our policy makers seem divided on whether we even have a problem.

The RBA recently noted that while housing prices have been rising "quite strongly", the gains were still well below growth rates seen in the early 2000s.

More significantly, the RBA stressed that rising housing prices are an important channel through which expansionary monetary policy supports economic activity.

Rising housing prices and turnover stimulates consumer spending by easing home owners' borrowing constraints and raising home owners' perception of wealth, the RBA said. What it didn't say was that stimulating consumer spending via the housing market is necessary because many of the past drivers of economic growth in this country are evaporating. But housing is not just another asset class. As a tool for economic policy it is deeply flawed.

As academics such as Clive Hamilton, professor of public ethics at Charles Sturt University, have noted recently, affordable property plays a crucial role in the health of any vibrant society. "It's where people live, put down roots, raise families and join in their communities," Professor Hamilton wrote last month.

From a social policy perspective a disaster long ago unfolded. First home buyers as a proportion of total borrowers have fallen to a record low of 12.3 per cent nationally, from about 20 per cent at the end of 2011, according to the Bureau of Statistics.

From a systemic risk point of view the prudential regulator might be the first to act. Last October New Zealand's Reserve Bank introduced restrictions on high loan-to-value (LVR) ratio housing mortgages. From October, NZ banks are required to restrict new residential mortgage lending at LVRs of more than 80 per cent to no more than 10 per cent of the dollar value of their new housing lending flows.

The NZ regulator justified the move by suggesting it is "concerned about the rate at which house prices are increasing and the potential risks this poses to the financial system and the broader economy".

So far Australia's regulators have said they don't believe Australia has reached a point where such measures need to be considered.

Instead the Australian Prudential Regulation Authority has relied on cautioning banks privately - including directors directly - against lowering lending standards. It has previously written to bank management and their boards urging diligence in this area.

Meanwhile, in Germany there is little history of persistent house price inflation, most often attributed to constant growth in housing supply and a central bank willing to take action when it believes property prices are rising unsustainably. For what you might pay for a modest flat in Ballarat or Wollongong you can still get a decent-sized family home in Cologne or Hanover.

Consumer confidence is near record highs in Germany, but unlike Australia, it is built on high job security and rising incomes off the back of the export of sophisticated consumer goods. Now that's a sustainable economy.

Stewart Oldfield is a research analyst at Wilson HTM. His views should not be taken as investment advice. stewart.oldfield@wilsonhtm.com.au

Submission to House Standing Committee on Economics:
Inquiry into foreign investment in residential real estate

Do Chinese buyers like your neighbourhood?

March 18, 2014 - 12:49PM

http://smh.domain.com.au/real-estate-news/do-chinese-buyers-like-your-neighbourhood-20140318-34z6z.html

Lucy Macken

…

Of the top-10 most searched areas on China's largest property search engine, eight boast median house prices above $1 million.…

Buyer's agent Shane Clinton of Buying Houses Australia says overseas buyers often side-step requirements that they only buy new property by purchasing established dwellings in the name of already established family members.

"The significant investor visa has taken a while to get traction, it's building now, but it means that to date 99 per cent of my clients have been buying outside the recommended visa guidelines," he said.

In Mosman, where more than 30 per cent of prestige sales last year were to buyers from China, McGrath agent Michael Coombs said of the eight sales he made to Chinese buyers in the past six months, three were to visa holders and five were purchased in the names of a family member.

Cashed-up Chinese swoop on Aussie bargains before next boom

- by:*Natasha Bita National Social Editor*
- From: *News Corp Australia*
- August 23, 2013 3:49PM

http://www.news.com.au/finance/real-estate/cashedup-chinese-swoop-on-aussie-bargains-before-next-boom/story-fncq3era-1226704103879

CASHED-up Chinese buyers are swooping on Australia's housing bargains to cash in on the next property boom.

Chinese migrants are helping friends and family in China to skirt Australia's foreign investment rules by purchasing established homes on their behalf, agents have told News Corp newspapers.

And Chinese developers are swooping on run-down commercial properties in Sydney and Melbourne to "land bank" and redevelop as apartments during the next boom.

Foreign buyers snapped up one in every eight new properties built this year - up from one in 20 properties in 2011, National Australia Bank research reveals.

So great is the international demand - fuelled by a falling Aussie dollar and Beijing's ban on buying more than one property - that some developers are now marketing new units exclusively to offshore buyers.

"We're hearing that a lot of developers now aren't even marketing in Australia," NAB senior economist Robert De Iure said yesterday.

"They're marketing them in Hong Kong, Singapore and China and we're not even getting a look-in."

Andrew Taylor, the Australian founder of Chinese property website Juwai, said Sydney, Melbourne and Brisbane were the most popular cities for Chinese househunting - but "Perth is really climbing fast".

He said established homes were more popular than apartments bought off-the-plan.

But Mr Taylor said Chinese migrants were buying properties on behalf of family and friends living in China.

"Many international buyers will use their family and extended networks to purchase property in Australia," he said from Shanghai.

"If they have a relative who is a permanent resident, there is no restriction in purchasing a property."

Australia's foreign investment rules ban foreigners from buying established homes, and developers can sell half their properties to foreign investors before they are built.

Temporary migrants, including foreign students, can buy an established home so long as they sell it when they leave Australia.

John McGrath, founder and chief executive of McGrath Estate Agents, agreed that some Chinese migrants were buying established houses on behalf of friends and family in China.

"There is no doubt that friends and extended family are making some acquisitions that may well be held in trust for others," he said.

He said overseas buyers had snapped up two in every three of the 588 luxury apartments in the Singaporean-owned Tower Melbourne development - being constructed as the city's tallest building.…

Pearls Australasia executive director David Higgins said Asian buyers were more likely to buy the more expensive apartments - costing more than $600,000 - with extra space or views.…

David Milton, the managing director of CBRE's residential project marketing, said some Chinese developers were "land banking" prime industrial sites for future redevelopment across Sydney.…

Mr Milton said most buyers had a relationship with Australia, and many had children studying at Australian universities.

Submission to House Standing Committee on Economics:
Inquiry into foreign investment in residential real estate

Chinese millions - and a loophole - keep luxury home market buoyant

July 16, 2011

Stephen Nicholls

http://news.domain.com.au/domain/real-estate-news/chinese-millions--and-a-loophole--keep-luxury-home-market-buoyant-20110715-1hi4g.html

…Sandie Dunne, of Dunne Mosman, said. "When it's good [property], the Chinese are certainly there with the big dollars."…

The influx of money at the top end comes despite last year's move to toughen up foreign ownership of Australian property rules, after the Rudd government had relaxed them.

One way in is via the student route. Parents buy a place for their children to live in while they study. Temporary residents - often students or skilled migrants - can still, as Rudd allowed, buy one established property of any value. They used to be limited to buying something under $300,000.

Last year's new rules that they apply through the Foreign Investment Review Board (FIRB) and sell the property when they leave is not discouraging many.

Ms Dunne has been showing buyers from China through $6 million properties. "They can put it in their son's name or their cousin's name, but there is this condition that the property must be sold when the study is finished," she said.

"It allows them to get in through this loophole."

A $20 million heritage-listed Harry Seidler-designed property in Parriwi Road, Mosman is also on their shopping lists. "Three Chinese groups have looked at it," Ms Dunne said.

Of the 380,000 student visas current in March, a quarter were held by Chinese. Even though the number of overseas students coming to Australia has dropped recently, a large number of those studying here want to stay. Many do. A survey by the Immigration Department last year, "How New Migrants Fare," said "a large number of former overseas students or temporary skilled migrants … subsequently transfer to a permanent visa"….

"And we also have a number of wealthy Chinese looking to gain residency as business migrants and they are investing here as well buying property."

Chinese buyers don't want your house, they want the land

Florence Chong 31 Jan 2014, 6:58 AM

http://www.businessspectator.com.au/article/2014/1/31/property/chinese-buyers-dont-want-your-house-they-want-land

Forget about off-the-plan apartments. What cashed-up overseas Chinese buyers really want is a house in Australia, and more precisely, the land on which the house sits.

For the right house in the right suburb, they are outbidding Australian buyers by $100,000 to $200,000 – and sometimes more – to secure the property. They are importing inflation to their country of choice.

"Many people say, erroneously, that Chinese investors are only buying new-built – I can say categorically that that is not true," says Andrew Taylor, co-founder of juwai.com, a property website visited by 1.5 million potential Chinese investors each month.

"To most Chinese buyers, re-sales (existing properties) are far more appealing," says Taylor.

Taylor estimates that Chinese investors spent $5.3 billion buying Australian residential real estate in 2013 – but this is a mere drop compared to the estimated $38 billion to $50 billion they spent buying houses overseas last year.

"The bulk of our enquiries are for established homes, priced at $600,000 to $1.1 million in Australia – the sort of price range most Australians are also targeting."

One buyer, who didn't want to give his name, experienced the competition first-hand recently when he looked to buy a home in Epping, a Northern Sydney suburb.

"We saw this house on a Saturday afternoon and when we went to make an offer on the Monday morning, it was already sold - $200,000 more than the asking price ($1 million)," he says.

He subsequently found out that the young Chinese buyer intended to knock it down and spend another $500,000 building a new house on the site.

Veteran Sydney agent Barry Goldman says: "The majority of Chinese buyers prefer to purchase brand new property, or if not new, the property must be substantially renovated or knocked down and rebuilt.

"In Sydney's leafy mid-north shore suburbs, it is not uncommon to see old houses knocked down and brand new double brick two-storey mansions in their place," says Goldman, chief executive of Leda Real Estate.

Joseph Ngo, branch manager of LJ Hooker Glen Waverley agent in Melbourne, says it is not unusual for his agency to sell homes in sought-after Melbourne suburbs for $100,000-$200,000 above the expected sale price.

"I recently sold a home for $2.3 million - $500,000 over the asking price," he says.

"They pay $1.2-$1.3 million for a house and think nothing of tearing it down. Then build a 60-square (557 square metres) mansion on the land. They are buying the land, not the house," says Ngo.

John McGrath, chief executive of McGrath Estate Agents, says: "We have seen buyer inquiries from clients of Chinese origin (local and overseas) double in the last 12 months."

Citing figures from the FIRB, McGrath said 9,768 approvals for residential real estate purchases or development were given to foreigners in the 2012 financial year - compared with 4,715 approvals in 2009-2010.

NSW experienced 45 per cent growth - the highest in the nation - in foreign investment in residential real estate.

In total, FIRB recorded residential sales of $4.2 billion to overseas Chinese buyers in the 2012 financial year - up 70 per cent on the $2.4 billion recorded in 2009-10.

Many of these buyers have friends or relatives in Australia to bid for them. Those without the local connections are still able to purchase - and there have been countless anecdotes of overseas Chinese buyers flying in to inspect and buy Australian properties they found on the internet.

According to the FIRB website, foreigners can buy established properties in Australia if they have valid visas for example, work or student visas. The rationale is that they need somewhere to live, but must sell when the visa expires. While foreigners are otherwise technically not allowed to buy established homes, a Canberra government source said non-resident foreign persons can buy, but they need to apply for approval to buy established dwellings for redevelopment.

Juwai's Taylor says China's economic ascendancy has unleashed unprecedented purchasing power for its citizens, and is now washing up on the shores of Australia, the United States, Europe, South America, and Southeast Asia….

Cashed up foreigners increasingly buying Australian homes: FIRB

- by:*Jessica Irvine National Economics Editor*
- March 01, 20143:39PM

http://www.dailytelegraph.com.au/business/jessica-irvine/cashed-up-foreigners-increasingly-buying-australian-homes-firb/story-fnj45kvd-1226841189543

CASHED-UP foreign buyers are snapping up Australian homes, helping to push the great Aussie dream of homeownership even further out of reach.

The Foreign Investment Review Board gave the green light to 11,668 purchases of Australian residential properties by foreigners last financial year. [Of these, 5,091 were temporary residents buying established homes.]

This was up a whopping 19 per cent on the previous year, according to FIRB's annual report released today.

A total of $17 billion in foreign cash was pumped into the Australian residential real estate sector last financial year, the figures show, and a further $35 billion into commercial real estate.

After including commercial real estate investments — offices, shopping centres and hotels — a total of 12,025 foreign purchases were approved — also up 19 per cent.

Of these, 4,573 were in Victoria, 3,580 were in New South Wales, 1,734 in Queensland, 1,267 in Western Australia and 567 in South Australia.

Chinese buyers were the biggest investors in Australian real estate, pumping $5.9 billion into the Australian residential and commercial real estate market, followed by Canadians with $4.9 billion and Americans with $4.4 billion.

The chief economist at HSBC Australia, Paul Bloxham, said the increase in foreign buyers was contributing to house price pain.