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INQUIRY INTO HOME OWNERSHIP.

The Terms of Reference are noted:

- *1 “current rates of home ownership;*
- *2 demand and supply drivers in the housing market;*
- *3 the proportion of investment housing relative to owner-occupied housing;*
- *4 the impact of current tax policy at all levels; and*
- *5 opportunities for reform*

The Committee will also give due regard to the aspects of the current Tax White Paper process being conducted by the Government that pertain of housing Australia.”

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HOME OWNERSHIP INQUIRY - TERMS OF REFERENCE

Four Terms of Reference have been provided by the Committee. However it has been found in preparing this submission that the Terms of Reference and therefore - the responses are interrelated. Accordingly, this submission groups material into two sections.

These two groupings, in turn, are inter-related. A small selection of photographs and “Additional” materials are also submitted

GENERAL COMMENTS

Australians have traditionally aspired to home ownership (owning one's own home in which to live), the benefits of which are well known. That desire for home ownership is not lessening, but

for a number of reasons, the reality of owning a home is becoming depressingly insurmountable for an increasing number of members of our society.

“It is too hard to try and own your own home.” (June 2015. Site worker on a multi-apartment site in Roseville, Sydney being developed, according to the site worker, by overseas interests). That sense of hopelessness is a source of escalating, negative, multiple, social spin-offs that, in turn, will cost all governments at all levels, in many ways.

This particular site is an example of an all too common occurrence in my area where desirable established homes and gardens are demolished for multi unit ‘luxury apartments’ for what? For the benefit of overseas investors to transfer their money out of their country. If the developments were for the benefit of the community in meeting their desire for home ownership, true housing choice- villas, town houses and adaptive reuse of larger existing homes* would have been part of the ‘supply’. Supplying 100 % apartments blocks is not a ‘home’ choice. And it has not provided ‘affordable’ housing. It suits the investors.

The following is the usual scenario; apartments are sold off the plan to overseas money; once built - a good proportion of apartments are offered for lease; a number of the apartments remain vacant. The inappropriate development has radically altered the valued streetscape, changed the neighbourhood (impacted negatively on the existing communities sense of place) caused the forced removal of a community (with attendant issues), has not provided for extra open space in the area, or extra spaces at schools etc. Supplying the alternatives forms of housing* would have been more in keeping with the valued, valuable and established context and would not have been so destructive of existing neighbouring owners’ enjoyment of their homes.

See photos pages 9 & 10. Many more images of “before” and “after” of other sites can be provided.

The “supply” of housing, in this context, is more about overseas money finding a safe haven than supplying what the community wants in a home.

The press is increasingly filing reports of the most disturbing of information about overseas money and its purchasing of Australian real estate: Just two examples follow:

- June 23, 2015 that *“Yes, corrupt cash is flooding in to property. How much? We don’t know.”* SMH

<http://www.smh.com.au/national/yes-corrupt-cash-is-flooding-in-to-property-how-much-we-dont-know-20150623-ghuckz>

- June 25. 2015 *“Foreign investment promised. Property packages offer Chinese buyers house, land and visa.”* SMH

<http://www.smh.com.au/business/property/the-most-important-hour-of-your-financial-life-can-deliver-10-houses-and-a-visa-chinese-investors-told-20150625-ghx2sh.html>

The Inquiry is obviously being conducted at a time of crisis, especially in Sydney and Melbourne, as significant, rapid increases in housing prices are recorded which an ever increasing number of would-be local buyers are unable to afford. The increased prices have coincided with the increased presence of overseas money (from more friendly tax environments and from dubious channels).

The information sought by the Inquiry is long overdue, but the business of the Inquiry should not delay addressing the impact of overseas money on Australian real estate. **The money coming from Asia, in particular, is predicted to massively increase. Local wage earners need urgent protection from this influx if they are to achieve home ownership.**

1. CURRENT RATES OF HOME OWNERSHIP

3. THE PROPORTION OF INVESTMENT HOUSING RELATIVE TO OWNER-OCCUPIED HOUSING;

- Let's not start on what **part the foreign buyers play in this equation** given nobody has really bothered to measure this participation rate but **I would add that it's huge and much, much higher than the federal government ever envisaged (when they do get around to looking)**. (Emphasis added).

15 JUNE 2015 Let's about the economy not the property buyers: Robert Simeon * *Property Observer* See below page 10.

- **The lack of political will to ascertain the Information*** and make it known will need to be addressed. (* *current rates of home ownership and the proportion of investment housing relative to owner occupied housing*)
 - In the past, the political will has not been there to make public the facts of overseas money participation rate.

For approximately the last 5 years as the former president of a community group, and as an individual, I have been unsuccessful in my efforts to raise with politicians the issue of overseas money purchasing residential real estate. (The initial focus of my concerns was the unlimited purchasing of apartments- off- the plan (medium density/high density) by overseas money of which there are many examples in my municipality. Addresses of apartment blocks and names of developers can be supplied.

After my prompting, questions similar to the Inquiry's specific question of 'the proportion of investment housing relative to owner-occupied housing' was raised by my Federal Member of Parliament with a prolific developer of apartment dwellings in the area (Ralan Pty Ltd). The questions were put to the developer in writing by the MP. However after more prompting, some many, many months later the MP was content, to have, a verbal 'answer' to the questions - the details of which he declined to tell me despite my raising the issue. This is most unsatisfactory, lacking in transparency and accountability.

Why did the MP decline to divulge the answers/contents of the conversation with the developer and why did the MP refuse to ask for a written response from the developer?

(The presence of overseas money in my area has now extended (from purchasing apartments off- the- plan) to purchasing to stand alone houses. Local real estate agents have stated "Almost 50% of (his) sales have gone to overseas money." "Our last 10 sales have gone to overseas money." "They will not be beaten at an auction.")

- **The reluctance of developers to provide the Information will need to be addressed.**

In addition to the above example, Sydney's "Green Square" large multi unit development is another example of the reluctance to divulge this information. At my request, the online Newsletter Property Observer approached a spokesperson from "Green Square" in 2014 but responses to the questions "the proportion of investment housing relative to owner-occupied housing" - were not forthcoming from that spokesperson.

- **To obtain the correct data the following problem of owners "hiding their identities" and "dodging laws" will need to be overcome as evidenced by the following:**

- The following was downloaded from the internet:

*"In any event it seems likely that no test is absolutely guaranteed to address all eventualities. One author has noted that "the struggle between those applying the tests and foreigners trying to mask themselves demonstrates that no single test nor any combination of tests can hermetically seal off foreign infiltration".⁸⁵ **The problem of foreign owners hiding their identities by establishing several layers of ostensible owners** was noted in the 1979 US Federal Regulations under AFIDA. While these regulations initially appeared to establish no limit for proving the ultimate level of ownership, a subsequent cut-off point was decided: ownership was to be traced to the third level, or the true owners of company C, which owns company B, which owns company A, the owner of the land, would not be enquired into. Even this level is admitted to be somewhat arbitrary and while it is more stringent than most of the tests of "foreignness" considered, would not prevent a determined foreigner from avoiding compliance with AFIDA's reporting requirements.⁸⁶ Perhaps unsurprisingly, the literature does not reveal the extent to which foreigners do successfully mask their purchases of land. If, as seems the case, foreigners can often manage somehow or other to get around foreign ownership restrictions through the use of trusts and holding companies the question remains as to the purpose of such restrictions. Are they designed to regulate and restrict foreign ownership of land - or is their purpose to appear to do so? Tests that claim to examine the issue of ultimate benefit will be of little effect unless they can actually be applied.*

The US is not alone in fearing or having feared foreign "takeover".¹⁰³ In Switzerland during the inflationary period of the 1970s such fears, together with fears of land shortages, led to foreigners being temporarily banned from acquiring land, and restrictions have been in place since.¹⁰⁴ (Emphasis added)

- See also: "Dozens of home owners found to be dodging laws" SMH June 9 page 5

“Tax investors have tracked down dozens of foreigners who have sidestepped investment laws to buy real estate in Australia, with one foreign investor being allegedly caught with 10 properties.”

- *“The effect on housing prices of the foreign investment was uncertain due to the lack of data.”* UBS Research paper. *Foreigners grab housing* SMH June 30th 2014
<http://www.smh.com.au/business/the-economy/one-in-eight-homes-now-foreign-bought-report-finds-20140630-zsrac.html>

2. DEMAND AND SUPPLY DRIVERS IN THE HOUSING MARKET

4. THE IMPACT OF CURRENT TAX POLICY AT ALL LEVELS

5. OPPORTUNITIES FOR REFORM

The following is submitted in response to the above, and as stated on page 1 it has been found that the issues are interrelated:

- In response to Premier Baird saying “increasing housing supply was the most effective action and local governments can take to put downward pressure on houses,” ..However, Professor “Bill Randolph, director of City Futures research centre University of NSW said **increasing the supply was not the answer**” There’s no clear supply side mechanism by which you could produce enough to reduce house prices significantly.” ..“A logical state government would abolish stamp duty and introduce a new system of property taxation.”

Further, it was reported that Professor Randolph said while "**a lot of factors driving house prices** such as negative gearing, were out of the control of the NSW government, it could lobby the federal government for change.”

“Baird's gain, buyers' pain: stamp duty windfall”. SMH 13/14 June 2015. (Emphasis added)

- “While Sydney has built thousands of apartments in the past decade, smaller dwellings that theoretically should be affordable, just over 50 percent of Sydney apartment stock has been snapped up by investors.”

“We have seen a sharp increase in the investor class: people who own more property than they can personally use.”

“We can choose to construct property markets in which some citizens are able to stockpile more residential property than they can ever personally use, or we can construct property markets that ensure equitable distribution of residential property, in particular across the generations.”

“Property for all not just the toffs” Cathy Sherry BA LLB (Hons) Syd, PhD UNSW SMH
June 15 2015. (Emphasis added.)

- Supplying more housing under the current systems could result in supplying more housing for investors to continue to stockpile.
- Negative gearing has been a factor fuelling the market, yet the total absence of negative gearing would be a negative impact. A compromise is required.
- There is no land tax on the principal residence. The whole thing is skewed into putting money into the principal residence.
- “The Sydney and Melbourne property markets are overwhelmingly being driven by property investors and foreign buyers.”

“I like many others, if you have a home, if you’re already there with a mortgage; you wonder how your children are going to get into it.” Well Joe, for starters **I would immediately slash the foreign buying policy where you allow 100% of all new housing developments to be sold offshore to foreign buyers.”**

“15 June 2015 “It’s about the economy not the property buyers:”
Robert Simeon * See below page 7 (Emphasis added).

- Would be home owners are being squeezed out from home ownership not by housing shortage alone but by the abundance of overseas money and investors out- bidding them.
- To really ascertain the housing demand it needs to be known whether the houses being built and being purchased are being occupied. For instance, the house opposite me has remained vacant for about a decade as the owner resides overseas. Many apartments built by and for overseas investors in my area remain vacant. Water use to a property could be a good indicator of occupancy/vacancy and under-utilised homes.
- Queensland demographer Martin Bell has found “there is clearly a connection between overseas migration and internal emigration.”

Could this connection have anything to do with the inability of local money to purchase a home in Sydney against the competition of incoming overseas money from a lower taxed environment? “Internal emigration” could also be termed “forced dislocation” with its attendant issues.

“NSW residents leaving for Queensland, Victoria and the ACT, new figures show” SMH
26March 2015.

- “The banking regulator's 10% a year cap investor credit growth will have **little impact on house prices, which are being driven by strong demand and a lack of supply**, says National Australia Bank.”

“Gavin Slater said **prices would continue to be supported by strong buying, including from overseas.**”

“*Bloomberg* reported Slater saying markets such as **Sydney were struggling with undersupply amid "significant" foreign demand.**”

(Emphasis added Source: <http://www.scanmerealty.com.au/scanme--blog/>)

- If foreign money and investment is creating a greater competitive market for available property it is an almost inescapable consequence that prices in the market will rise as a result of that competition across the housing spectrum affecting housing affordability and the opportunity for home ownership.
- “The much preferred method that foreign buyers have pursued is to simply transfer funds to their newly appointed trustee who has Australian residency, and they then legally purchase a property. When it suits the foreign buyer they apply for Australian residency and once this is granted they then apply the *Duties Act 1997* section 18 which applies to non double duty. Given that they can prove that they actually provided all the funds to acquire the property to their appointed trustee they then pay a duty of \$50 to have the property transferred into their name. So you see there is absolutely no need to advise the FIRB given this is totally legal in NSW so Joe Hockey **should be looking at all the legally available loopholes first.**”

“The only way that the federal government can **get to the bottom of these foreign acquisitions is to somehow get hold of the stamp duty records** which won't happen anytime soon.”

Robert Simeon Property Observer (Emphasis added)

- In my area, the existence of easy access to many schools with a good reputation is playing a major part in attracting the construction of overseas funded apartment blocks and the purchasing of free standing homes on single residential blocks by overseas money. It seems that having purchased the home, the family resides in it while the **“bread winner” works overseas for extended periods under a softer tax situation than the tax requirements in Australia. This needs to be addressed** as it is not a level playing field in the quest for home ownership when it comes to the issue of local money trying to compete with the overseas money.
- Recently, in June 2015, a house sold in Shirley Rd Roseville, Sydney for \$2 million more than the reserve. The "word" was that the competing Asian purchaser and would-be Asian purchaser did not want to lose face against each other and kept bidding. That extra \$2 million representing, say, the cost of 2-plus houses - is a good indication of the amount of overseas money available. This was also evidenced recently in Eastwood where a home sold at auction for \$200,000 over the reserve. It was noted in the media report that the young purchasers were accompanied by their parents from overseas.

- There is no land tax on the principal residence. The whole thing is skewed into putting money into the principal residence.
- I have been advised in some countries that **overseas money is not permitted to purchase any thing that “touches the ground.”** That means the host country still owns the land on which the development is located.
- *Property Observer 5th March 2015*

Mark Mendel, CEO of iBuyNew, the largest facilitated market place for off the plan buyers in Australia, believes we should double stamp duty for foreign buyers.

The potential revenue increase should be used to reduce stamp duty for first home buyers (FHBs).

Mendel believes foreign ownership of Australian property is relatively inelastic.

“The application fee for foreign buyers does not go far enough in my opinion” said Mendel.

“We should look to double stamp duty for foreign property buyers and use this increased revenue to reduce stamp duty for first home buyers.”

“The current overreaction from many in the industry that the proposed application fee will affect foreign ownership of property in Australia is grossly misstated.

“From my experience, the motivation for overseas investors to buy property in Australia is to move funds into a politically stable economy.

“An additional application fee does not change this.”

iBuyNew has sold over 400 properties worth over \$170 million since launching and has over 1,500 apartments available.



June 2015. Victoria Street Roseville Sydney

SEE OVER....



June 2015. Victoria Street Roseville Sydney

Six of approximately twelve substantial houses in the process of being demolished to make way for yet more “luxury” apartments, many of which will probably remain vacant.

Where is the housing choice? Planning policies, which have produced this distressing and wasteful scenario, have been more about overseas investors finding a safe haven for their investments than providing housing choice or affordable housing for existing residents.

A bull dozer driver has said to a neighbour in a street where similar houses were being demolished “*I can’t believe we are knocking down such quality homes.*”

The issues of embodied energy and climate change impacts are other matters the authorities have ignored. Our heritage, a collection of fine domestic architecture, is trucked off to the tip as rubble.

ADDITIONAL MATERIAL AND FULL TEXTS

Includes expansion on the issues to be considered in relation to the Terms of Reference and more opinions for Opportunities for Reform.

* “15 JUNE 2015

It’s about the economy not the property buyers: Robert Simeon

I am struggling to find a time when the bureaucrats and politicians struggled as much as they presently are when trying to define what exactly is happening to the Sydney property markets ó please note that I have used plural as against the popular and misrepresented singular definition.

Australia’s head cashier Joe Hockey is having an absolute shocker given he hails from a family that has a rich real estate heritage. For example, last week he stated that more houses were needed to fix the home affordability issue. I like many others, if you have a home, if you’re already there with a mortgage; you wonder how your children are going to get into it. Well Joe,

for starters **I would immediately slash the foreign buying policy where you allow 100% of all new housing developments to be sold offshore to foreign buyers.**

Then one week later announced that he "totally understands" housing in Sydney and Melbourne is expensive and advised first home buyers to "get a good job that pays good money." If you go back 10 years first home buyers represented 10% of the overall market & today they are struggling to record a 5% market participation. **The Sydney and Melbourne property markets are overwhelmingly being driven by property investors and foreign buyers.**

The real truth of the matter is that the Coalition and ALP don't care about the buyers, or where they come from for that matter, this is all about strengthening the economy where real estate is now doing all the heavy lifting. The crux of the matter is that the property sector now contributes more to Australian gross domestic product (GDP) than mining. The property sector is estimated to generate 11.5% of GDP, employs 1.1 million Australians and pays \$72.1 billion in state, federal and local real estate taxes each year.

- Then we have Australia's head teller Glenn Stevens pointing at another rate cut due to a weak economy given that the Australian economy is now weaker than forecast two years ago. In 2013 the projection was that the economy would be growing at a rate of 2.5% to 4% although by mid-2015 it will be lucky to post a growth rate of 2.5%. **Stevens also commented this week that he is concerned about Sydney's booming house prices – you see he used the term house although houses in certain parts of Sydney are not doing that well when compared to apartments. (Examples are provided)**

The problem is purely that house prices are bundled as against separating houses from apartments and investors from owner occupiers. Let's not start on what part the foreign buyers play in this equation given nobody has really bothered to measure this participation rate but I would add that it's huge and much, much higher than the federal government ever envisaged (when they do get around to looking).

Glenn Stevens was using the HSBC research that found Australian house prices had risen 24 per cent in the past three years, though the gains had been mostly confined to Sydney and Melbourne & so why then call this Australian house prices? Sydney had jumped 39 per cent and Melbourne prices were up 22 per cent bringing the average price growth for the rest of the country at 10 per cent.

The real problem Australia is facing is getting the economy stimulated and thus far all the monetary measures have been a dismal failure. Yet again, the problem is contained directly in Canberra and the refusal to implement reform so on that basis I can see where Glenn Stevens is coming from.

Cast your mind back to 2008 when Ken Henry presented the Henry Tax Review (the Rudd government held on to it until 2010) & we need to remember what Ken Henry said at the time "Ken Henry warns of looming taxation crisis", and said that need to change is urgent. In 2014, he

warned that the Abbott government urgently needs a tax and welfare package to head off an imminent budget crisis.

Well we have a budget crisis and no tax reform and as Ken Henry put it "there will be a day of reckoning." One only has to ask a simple question "where would the Australian economy be today had the Henry Tax Review been implemented?"

So what we have is politicians only interested in re-election so any thought of reform is immediately removed until we get hit with a major economic downturn. The Henry Tax Review was designed to drive the economy and therefore minimise the likelihood of another economic downturn as experienced with the Global Financial Crisis. Governments don't pay payroll tax however if you asked businesses what they would do with the savings if it were to be abolished "you would see a much different Australian economy than we are seeing presently."

ROBERT SIMEON is a director of Richardson Wrench Mosman and Neutral Bay and has been selling residential real estate in Sydney since 1985.

He has also been writing real estate blog Virtual Realty News since 2000.

"Property Investor 5 March 2015

"Have you ever seen a \$1 million in cash," a Sydney estate agent asked the quite surprised 2GB Money News broadcaster Ross Greenwood on his show last night.

"The claim coincided with the unveiling of a federal government FIRB property buying consultation paper, with proposed measures designed to restore confidence in a foreign investment review system that had not prosecuted anyone for breaching the rules since 2006.

The agent said he came from an undisclosed suburb heavily populated by people of Chinese origin and also a destination for Chinese investors. Property Observer gathers it may be riverfront inner west Sydney.

"They come in weekly with literally suitcases with a \$1 million, \$2 million in cash," the agent told Greenwood, who had the agent's identity checked, but not revealed on air.

"The one thing they say is we don't need a bank, we can settle in two weeks."

Asked whether they were buying new or established homes the agent said: "Anything."

"It is happy days for me as I am an agent, but for my kids, your kids and the listener's kids, they have no hope."

Asked how they are getting around the rules, the agent said they respond 'you don't have to worry about that.'

One buyer told him the cash came from camper van trailer factory back in China, when his questioning met his curiosity and obligations regarding excessive cash transactions.

Ross Greenwood wondered how the money gets through Australian customs.ö
