

Accessibility and affordability of housing

Impact of foreign investment on house prices

Overview

- 4.1 Residential property prices in Australia have risen significantly over the past three decades, particularly in the major capital cities (see Table 4.1). It is notable also that prices in Sydney have grown very strongly since 2010.
- 4.2 RP Data states on its website that 'combined capital city home values reached a recent low point in May 2012 and over the 21 months from May 2012 to January 2014, home values have increased by a total of 13.2 per cent'.¹
- 4.3 Contributions to this inquiry from a number of personal submitters have expressed concerns that overseas investors in Australia's property market make it more difficult and more expensive for Australians to buy a home, as they put additional upward pressure on house prices. This chapter focuses on the factors affecting affordability and accessibility in Australia's housing market, with an emphasis on the impacts of foreign investment.

1 RP Data website < http://www.rpdata.com/research/capital_markets_report.html > viewed 15 September 2014.

Table 4.1 Median residential property prices in Australia's major capital cities since 1980

Year end+	National (\$000)		Sydney (\$000)		Melbourne (\$000)		Brisbane (\$000)		Adelaide (\$000)	
	Houses	Units	Houses	Units	Houses	Units	Houses	Units	Houses	Units
1980	37	38	50	58	40	35	32	38	na	na
1985	67	64	80	73	75	63	55	56	na	na
1990	108	116	160	150	135	117	108	95	na	na
1995	124	129	175	170	130	116	133	131	110	96
2000	160	180	292	272	200	189	154	175	137	100
2005	293	288	495	380	320	284	316	264	270	211
2010	430	410	600	475	502	450	471	390	404	342
2014	468	425	740	571	550	452	477	390	415	349

Source RP Data, Submission 23.3

*Median house and unit prices are calculated across the three months ending June in each year (and are rounded)
+Year end is at 30 June for the year listed; na, data not available.

Table 4.1 continued

Year end+	Perth (\$000)		Hobart (\$000)		Darwin (\$000)		Canberra (\$000)	
	Houses	Units	Houses	Units	Houses	Units	Houses	Units
1980	na	na	na	na	na	na	na	na
1985	na	na	na	na	na	na	na	na
1990	90	82	78	70	na	na	na	na
1995	120	105	100	94	na	na	145	127
2000	150	125	118	95	163	140	185	140
2005	275	250	250	220	259	186	373	315
2010	492	411	349	279	507	420	520	415
2014	543	444	340	267	550	440	560	424

Source RP Data, Submission 23.3

*Median house and unit prices are calculated across the three months ending June in each year (and are rounded)

+Year end is at 30 June for the year listed; na, data not available.

Drivers of house prices

4.4 The committee was interested to explore through the inquiry whether foreign investment puts measurable upward pressure on house prices in Australia. In its February 2014 Statement on Monetary Policy, the Reserve Bank of Australia (RBA) notes that 'the rise in housing prices over the past

year or so is broadly consistent with the historical relationship between interest rates and housing prices'.² The Statement continues:

The reduction in interest rates has eased some financing constraints, reduced the user cost of housing and increased the attractiveness of investing in riskier, higher-yielding assets, resulting in stronger demand for residential property.³

- 4.5 Meriton Group states in its submission in relation to house prices that 'housing affordability is driven by many supply and demand factors, including interest rates, land availability and costs of development (mostly subject to state policy and planning regulations, taxes and costs of labour).'⁴ Meriton Group submits however that:

Foreign investment is not a significant driver of increased housing prices, playing a minor role in the overall housing market, and representing around 2.5 per cent of total annual sales.⁵

- 4.6 When asked at the public hearing on 27 June whether it is fair to say that foreign investment is having some impact on house prices, Dr Kent of the RBA observed:

... I think it is hard to deny. If you imagine an auction on a weekend where you throw in an extra buyer who is willing to pay a little bit more than everyone else there, if that buyer happens to be foreign, maybe as a temporary resident, and they are buying the single place that they are able to get approval for, it is hard to deny that it would not push up the price.⁶

- 4.7 At the public hearing on 29 August, Scott Haslem of UBS Australia was also asked his views on the impact of foreign investment on house prices, and he commented:

...when I as an economist look at demand and supply, if there has been a material increase in demand then it would seem disingenuous for me not to assume that there has at some point been some increase in price, unless supply is able to catch up. I think the RBA made this point as well. I – like the RBA, I think, but certainly on my part – think the general thrust of the laws is right:

2 Reserve Bank of Australia (RBA), *Statement on Monetary Policy*, February 2014, Box B: The Housing Market <www.rba.gov.au/publications/smp/2014/feb/html/box-b.html> viewed 15 September 2014.

3 RBA, *Statement on Monetary Policy*, February 2014, Box B: The Housing Market <www.rba.gov.au/publications/smp/2014/feb/html/box-b.html> viewed 15 September 2014.

4 Meriton Group, *Submission 14*, p. 2.

5 Meriton Group, *Submission 14*, p. 2.

6 Dr Christopher Kent, Assistant Governor, RBA, *Committee Hansard*, Sydney, 27 June 2014, p. 8.

we should be encouraging foreign investment and it should be focused towards new. But we cannot always be confident that the supply response is as rapid as the demand response, and therefore, whilst foreign investment is clearly going to add to the level of supply, the supply response may well be too slow to avoid a period of higher prices.⁷

4.8 Meriton Group further comments in its submission on what it describes as the recognised drivers of house price growth in Australia:

It is widely recognised that the key drivers of the demand for housing and the growth in prices have been:

- demand for housing fuelled by strong population growth and growing per capita incomes, as well as high levels of aggregate employment across the economy linked to a sustained period of economic growth;
- the preference provided to housing – to both homeowners and investors – by taxation settings and by some government assistance programs such as the state-run first home owner schemes; and
- the increased capacity of Australian households, and investors, to obtain and service larger mortgages due to greater access to cheap credit.

In addition, supply factors have also contributed to the growth in dwelling prices. In particular, the availability of land for development and the cost of developing such land has been a significant constraint.⁸

4.9 Real Estate Institute of Australia (REIA) notes in its submission that the undersupply of housing was identified at an industry roundtable in March 2014 as a major driver of increasing house prices and declining affordability.⁹ REIA also submits on this issue:

It is fair to say that it is because of an inadequate supply of housing that questions are raised from time to time about the efficacy of foreign investment. Addressing housing supply would avoid any future questioning about impact of foreign investors in residential real estate.¹⁰

4.10 Housing Industry Association (HIA) comments in its submission that although house and rental price increases (62 and 55 per cent over 10

7 Mr Scott Haslem, Chief Economist, UBS Australia, *Committee Hansard*, Canberra, 29 August 2014, p. 28.

8 Meriton Group, *Submission 14*, p. 5.

9 Real Estate Institute of Australia (REIA), *Submission 17*, p. 9.

10 REIA, *Submission 17*, p. 9.

years, respectively) have been well above inflation and household income growth in recent years, this is not due to speculative demand, including that of foreign investors:

... concurrent growth in home prices and rental prices is not consistent with the thesis that speculative activity is a primary driver of price rises. Rental prices reflect the value of housing services rather than any entitlement to future growth. Strong concurrent growth in home prices and rental prices is consistent with the demand for housing services exceeding the supply.¹¹

4.11 Property Council of Australia submits that there is not enough foreign investment to influence house prices and that '... there is no evidence that international investment is swamping the residential housing market or influencing prices'.¹²

4.12 SMATS Group expresses the view in its submission to the inquiry that increased demand from population growth is the main driver of house price growth:

The general community does not fully appreciate that the main driving force in property price increases is Australia's growing population, which rose 1.8% to the year 30th September 2013. This equates to an additional 405,400 people and places enormous pressure in the property market for homes to accommodate this rising tide.¹³

4.13 The RBA notes in its submission to this inquiry that any impact of foreign investment on house prices is not dependent only on the purchasing of Australian real estate by overseas buyers:

The overall impact on the housing market of ownership by foreign citizens also depends not only on their purchases, but also on their subsequent sales. If the flow of purchases and sales by foreign citizens roughly balance, then there is likely to be little effect on overall demand and house prices from foreign participation in the housing market.¹⁴

4.14 At the public hearing on 27 June, the RBA was asked by the committee to further comment on possible house price pressures caused by foreign buyers entering the market, including temporary residents. Dr David Orsmond, Deputy Head, Economic Analysis Department, RBA, responded:

11 Housing Industry Association (HIA), *Submission 20*, p. 9.

12 Property Council of Australia, *Submission 25*, p. 4.

13 SMATS Group, *Submission 35*, p. 3.

14 RBA, *Submission 19*, p. 6.

When you are thinking about whether or not foreign purchases are affecting any particular part of the market, one useful thing to think about is what is happening in all of the other parts of the market where you do not believe there is a large foreign investor aspect... The price increase in certain pockets around the country is not markedly different from the average that has gone up across the whole nation. That suggests that the price increase we have seen over, say, the last year is a phenomenon that is not focused on foreign investors per se, although maybe at the margin there is some effect in some markets.¹⁵

4.15 Dr Kent of the RBA further commented at the 27 June hearing that recent house price rises were to be expected given the current market conditions:

... it is, in many ways, not surprising that house prices have gone up, because interest rates are very low, and, as I said, population growth, now at 1.7 per cent a year, is reasonably robust. Those two things help to explain why house prices have gone up. I do not think they have gone up any more than we might have expected, given those forces.¹⁶

4.16 The Treasury comments in its submission that the extent of house price rises that are attributable to foreign demand is difficult to isolate from other factors.¹⁷ At the public hearing on 30 May 2014, the committee inquired of Treasury officials whether foreign investment was sufficient to have a material impact on housing affordability. Mr Brenton Goldsworthy, Principal Adviser, Macroeconomic and Conditions Division, responded:

I think the best way to answer that question is to point to the role that low interest rates are clearly having on house prices. It is certainly fair to say that the stimulus incentive that is provided to domestic investors and also to domestic owner occupiers would likely be having the much larger impact on house prices.¹⁸

4.17 UBS Australia also expresses the view that the actual impact of foreign investment on house price pressures is difficult to measure:

... it remains near-impossible to assess the extent to which this has positively impacted house price growth over the past year, from

15 Dr David Orsmond, Deputy Head, Economic Analysis Department, RBA, *Committee Hansard*, Sydney, 27 June 2014, p. 8.

16 Dr Christopher Kent, Assistant Governor, RBA, *Committee Hansard*, Sydney, 27 June 2014, p. 8.

17 The Treasury, *Submission 31*, p. 9.

18 Mr Brenton Goldsworthy, Principal Adviser, Macroeconomic and Conditions Division, the Treasury, *Committee Hansard*, Canberra, 30 May 2014, p. 6.

‘minimally’ to ‘materially’, particularly relative to other important factors that are contributing to upward pressure on house prices, such as the persistent undersupply (and rising cost) of housing, as canvassed by a broad range of other submissions to the Inquiry.¹⁹

4.18 At the public hearing on 20 June 2014, Mr Rod Cornish of Macquarie Group Limited also commented that the impacts of foreign investment on house prices are not as great as the factors that have been seen in previous cycles such as interest rate reductions:

I think the bigger force that we are seeing in this cycle is the same force we have seen in other cycles, which is an improvement in people's capacity to pay or to obtain a mortgage through rate cuts... This time we have seen a price increase in the last two years of 14.5 per cent, so it does not to me look out of synchronisation with previous cycles and the same drivers, being an improvement in affordability.²⁰

4.19 Mr Ellis of First National Real Estate expressed the view at the public hearing on 29 August 2014 that foreign investment is not a principal driver of house price increases in outer residential areas:

In the outer residential area the pushing up of prices by foreign investors is I think a bit overstated. It has been pushed up by the strength of the economy, the lowest interest rates for 50 years... the pent-up demand is probably pushing the prices up greater than foreign investment.²¹

Analysis

Impacts of foreign buyers on affordability

4.20 There are many Australians who are finding it difficult to afford their first home as price growth continues to be very strong in the major capitals. The possibility that foreign buyers are exacerbating this problem is analysed in the next three sections. The committee is fully aware of concerns in parts of the community, expressed in a number of personal submissions to this inquiry, that the policies allowing foreign investment in residential real estate are not benefitting Australians because they make

19 UBS Australia, *Submission 51*, p. 2.

20 Mr Rod Cornish, Division Director, Macquarie Group Limited, *Committee Hansard*, Melbourne, 20 June 2014, pp. 27-28.

21 Mr Raymond Ellis, Chief Executive, First National Real Estate, *Committee Hansard*, Canberra, 29 August 2014, p. 16.

housing less affordable. Conflicting evidence has been received by this inquiry, although on balance it is the committee's view that the benefits of foreign investment outweigh the negatives.

- 4.21 Meriton Group emphasises in the covering letter for its submission that 'if Australia wishes to keep housing affordable and to keep developers building, it is imperative that we embrace foreign investment in real estate and the certainty it can bring to industry'.²² Meriton Group further submits:

At the margin, foreign purchasers may be pushing up prices in particular segments of the market such as high-quality new apartments in Sydney, Melbourne and the Gold Coast. However, even these markets are dominated by local purchasers.²³

- 4.22 Urban Taskforce Australia states in its submission that housing affordability needs to be addressed by looking at planning laws and supply constraints:

If the Government is truly concerned with housing affordability it should look more closely at the complex state and local planning systems and risky development approval process... if the Government wants to tackle housing affordability it must focus on ways to increase supply. Foreign investment in new housing is but one of the ways of supporting the delivery of new housing stock.²⁴

- 4.23 The Property Council of Australia was queried on the factors affecting affordability at the public hearing on 20 June. Mr Mihno commented:

The real enemies to affordability, from our perspective, are bad planning systems, lack of land supply and crippling taxes and charges... Lack of land supply in itself forces everyone to compete for limited housing and inevitably hikes up prices. From our perspective, it is time to end the confusion and focus on the fact that we can keep foreign investment working for us.²⁵

- 4.24 Ms Caryn Kakas, Executive Director, National Policy and Strategy, at the Property Council of Australia expressed the view at the 20 June hearing that Australians are being priced out of the market by other Australians and not by foreign buyers:

22 Meriton Group, *Submission 14*, p. [1].

23 Meriton Group, *Submission 14*, p. 8.

24 Urban Taskforce Australia, *Submission 11*, pp. 2-3.

25 Mr Andrew Mihno, Executive Director, Property Council of Australia, *Committee Hansard*, Melbourne, 20 June 2014, p. 2.

I think the most important issue is domestic ability to pay. We see an increased housing affordability issue... we continuously see people being priced out of the market, but they are being priced out of the market by the people in their communities. They are not being priced out of the market by overseas buyers... What worries me is: if you move foreign investment out, which is the underpinning of trying to deliver supply, how much less supply are we going to have, how much more demand are we going to have, and how much more are we going to see prices increase? ²⁶

4.25 The Urban Development Institute of Australia also argues in its submission that foreign investment is not the cause of reduced housing affordability:

UDIA believes that the underlying cause of Australia's housing supply and affordability problems continues to be supply side barriers to new land and housing supply. The solution is not to further restrict foreign investment, but for all levels of government to remove supply side constraints on housing to ensure that foreign investor demand is able to be most effectively transformed into more homes for Australians.²⁷

4.26 Nyko Property comments in its submission that the current regulatory framework for foreign investors strikes the right balance in terms of affordability:

... the current regulations around foreign investment in residential property strike the right balance and should not be altered. A change making it easier for overseas investors to purchase existing property could negatively affect the affordability of housing for home owners in Australia and making it more difficult for foreign investors to purchase new property will almost certainly hurt jobs in the construction industry by reducing building activity, especially in the inner city areas.²⁸

4.27 At the public hearing on 29 August 2014, representatives of CLSA Australia were asked for their opinions on whether the positive contributions of foreign investment included a reduction in the price of some housing stock. Mr John Kim, Head of Australia Property, CLSA responded:

26 Ms Caryn Kakas, Executive Director, National Policy and Strategy, Property Council of Australia, *Committee Hansard*, Melbourne, 20 June 2014, p. 10.

27 Urban Development Institute of Australia, *Submission 27*, p. [2].

28 Nyko Property, *Submission 28*, p. [3].

I would definitely say so for some of the developers that we cover... they could sell that to the local market without the aid of foreign investors, but with the velocity of the sales a lot of that is supported by foreign investors – it [gives] them confidence to move on to projects... more profit margin and, importantly, the cash-flow to move on to buy other sites. All together I think that helps with the overall prices going forward with some of the larger projects.²⁹

Housing supply

4.28 The issue of housing supply, and indeed undersupply, was raised consistently throughout the inquiry. This was of interest to the committee as it relates directly to housing affordability and the benefits of foreign investment in the property market in Australia.

4.29 The evidence points to a continuous lack of supply in Australia as a key driver of price increases. Importantly, foreign investment is regarded by industry experts as vital to increasing this supply. Rather than causing price pressures, the evidence suggests that foreign investments may actually help keep prices lower by increasing supply.

4.30 Urban Taskforce Australia highlights in its submission that New South Wales is experiencing significant shortfalls in supply and that this is a key factor in considering the policy framework for foreign investment:

For many years the New South Wales development industry was not able to produce sufficient housing to meet demand. Prohibitive planning policy resulted in a massive supply problem driving the cost of housing to such a level that for a great proportion of the population housing has become unaffordable... This is the context in which the Government must consider its foreign investment in residential real estate policy. We argue that the current policy is good government policy as it is supporting the production of new housing.³⁰

4.31 Meriton Group comments in its submission that foreign investment is critical for housing supply:

We strongly believe that foreign investment is critical to the continued supply of new housing to the Australian market, and that any attempts to further restrict this investment will ultimately

29 Mr John Kim, Head of Australia Property, CLSA Australia, *Committee Hansard*, Canberra, 29 August 2014, p. 20.

30 Urban Taskforce Australia, *Submission 11*, p. 1.

result in adverse consequences for the supply of housing in Australia and its affordability.³¹

4.32 REIA submits also that supply is falling well short of demand in Australia's housing market and putting pressure on prices:

Supply has been unable to keep pace with demand due to a number of reasons: land availability; taxation policies; length and cost of planning process; zoning policies, and environmental regulations. Furthermore, unless supply is addressed the gap between supply and demand is forecast to widen to 375,000 dwellings by 2015. A major contributor to increases in house prices and declining affordability is the undersupply of housing.³²

4.33 Master Builders Australia expressed the view in its submission that policy settings must ensure that supply is increased:

Insofar as foreign buyers of Australian real estate may be adding to the demand-supply imbalance, the appropriate policy response is not to impede demand but to reform and liberalise the supply side of the Australian housing market.³³

4.34 Property Council of Australia details in its submission the benefits of foreign investment to housing supply in six ways:

- Use it or lose it provisions – Foreign Investment Review Board (FIRB) approvals require development to commence within 24-months.
- Level playing field – international developers must market their projects within Australia.
- Global pool of buyers – the ability to sell some dwellings offshore assists domestic developers to start new projects and supply Australians.
- Two must replace one – every home demolished by an international investor must be replaced by at least two.
- Better housing options – international investors help State Governments meet their infill development targets.
- Savings to government – international investors focus on infill development, which means less infrastructures spending in the suburbs.³⁴

4.35 Property Council of Australia also submits that undersupply pressures are fuelling the debate on the merits of foreign investment in Australian housing:

31 Meriton Group, *Submission 14*, p. 1.

32 REIA, *Submission 17*, p. 9.

33 Master Builders Australia, *Submission 22*, p. 3.

34 Property Council of Australia, *Submission 25*, p. 2.

International investment would be a non-issue if there were enough housing supply and choice. Blockages in the regulatory environment, including moribund planning systems, excessive infrastructure charges and slow development approvals, are reducing housing affordability.³⁵

- 4.36 Mr Mihno of the Property Council of Australia outlined his views on the importance of foreign investment to housing supply at the public hearing on 20 June:

What is not realised by many... is the leverage that foreign investment creates for supply of housing to Australians. I will illustrate that with a bit of an example: on current figures, foreign investment has directly contributed just over 8,200 homes. Importantly, foreign investment in new developments is often necessary for presales that get developments off the ground. Typically, what you will find is that 20 per cent of apartment developments are sold to foreign buyers, which means that 80 per cent of those developments are given to residents and owe their start to foreign investment. In short, every foreign buy ensures that there are four new apartment dwellings built for Australians if you take that as a relatively simple but illustrative example.³⁶

- 4.37 Also at the public hearing on 20 June, Ms Kakas of the Property Council outlined her views on supply-side issues in Australia's housing market:

The fact of the matter is... that there is a substantial market failure. There has been report after report at a state and federal level indicating where the market is actually not operating at optimal levels because of local state and sometimes federal rules and regulations. This has been very much specifically in the planning space that you would well know in New South Wales – that has consistently had some of the worst supply delivery in the country against your population and demographic growth... The market will deliver as much as it can. There is a high level of demand there and the market would like to deliver at a lower price. It would like to deliver at price points that currently cannot be met. But it cannot be done unless the market is actually being addressed and is able to operate functionally.³⁷

35 Property Council of Australia, *Submission 25*, p. 2.

36 Mr Mihno, Property Council of Australia, *Committee Hansard*, Melbourne, 20 June 2014, pp. 1-2.

37 Ms Kakas, Property Council of Australia, *Committee Hansard*, Melbourne, 20 June 2014, p. 14.

- 4.38 Urban Development Institute of Australia makes a similar argument in its submission:

It's important to remember that the efficacy of foreign investment as a mechanism to increase the size of Australia's housing stock ultimately depends on the ability of developers to supply the market with new homes. It is still unfortunately the case that the supply of new housing in Australia is heavily and unnecessarily constrained by governments through high taxes and charges on new housing, inadequate investment in urban infrastructure, poor planning, inefficient zoning and approvals systems, and regulatory delays and burden. As a result, any increase in demand for housing (including demand from foreign investors) has the potential to place upward pressure on prices.³⁸

- 4.39 Dr Dale of HIA commented at the 30 May hearing that foreign investment was contributing to supply in different parts of the housing market:

Independent research commissioned by HIA demonstrates the benefit of increased new housing supply to the broader economy. Foreign investment is contributing to that. One example is the foreign investment as it relates to the construction of apartments, although I would point out that foreign investor demand for new residential property also extends to low- and medium-density housing and also house-and-land packages.³⁹

- 4.40 At the public hearing on 30 May, the Chairman of the FIRB, Mr Brian Wilson, expressed the view that a focus on increasing the supply was hard to argue against:

I think that, if we look back at history – and this was included in the Treasury's submission about the changes in the rules to residential real estate – they probably tighten and loosen pretty much in accordance with the housing market and economic activity. I would certainly say – and it is probably outside my ambit as Chairman of the Foreign Investment Review Board – that the Governor of the Reserve Bank said to this committee at some stage that it may be better to concentrate on increasing the supply than restricting the demand. As a private citizen I would find that difficult to disagree with.⁴⁰

38 Urban Development Institute of Australia, *Submission 27*, p. [2].

39 Dr Dale, HIA, *Committee Hansard*, Canberra, 30 May 2014, p. 20.

40 Mr Brian Wilson, Chairman, FIRB, *Committee Hansard*, Canberra, 30 May 2014, p. 9.

First home buyers

4.41 The issue of housing affordability probably affects first home buyers more than any other group of investors in the residential property market. The committee was interested in any negative impacts of competition from foreign buyers on Australians seeking to purchase a first home. The evidence suggests however that these two investor markets are largely separate.

4.42 REIA submits that first home or average buyers are not competing in the price bracket that applies to residential properties purchased by overseas investors:

The broad conclusions from the perspective of an impact on the domestic market are that: the FIRB guidelines of increasing the supply of housing are being met; the market segments of existing dwellings and vacant land are in a price category well beyond median prices and are not likely to compete against 'average' buyers or first home buyers; new dwellings and off-the-plan purchasers appear to be in a price category higher than the median for units.⁴¹

4.43 Ms Amanda Lynch, CEO of REIA, reiterated this point at the public hearing on 30 May 2014:

Australian first home buyers have an 80 per cent preference in their buying habits for established real estate – they want to buy existing houses. These are near to transport corridors and they are also near to services, and they are cheaper than new houses and apartments. This is a different buying habit from foreign investors, who favour new apartments... The preference for foreign investors is at the higher end of the market, with a \$1 million average for established real estate for temporary residents, and a \$647,000 average for individual purchasers of new dwellings... it is way beyond the reach of an aspiring first home buyer and it is beyond the average price for Australian property.⁴²

4.44 In his opening statement at the public hearing on 30 May, Dr Brent Davis of Master Builders Australia also discussed the differences in the markets for first home buyers and foreign investors that are evident from the available data:

From what we are aware of from the various sources available to us, foreign buyers account for about five to six per cent of the

41 REIA, *Submission 17*, pp. 8-9.

42 Ms Amanda Lynch, CEO, REIA, *Committee Hansard*, Canberra, 30 May 2014, p. 28.

Australian housing market... They probably do not compete with the first home buyer segment of the market. They probably position themselves towards the higher end of the market.⁴³

- 4.45 The RBA also comments in its submission that the markets for foreign investors and first home buyers are different:

Some commentators have noted a potential for foreign residential housing demand to push up the price of housing for first home buyers. However, the data available – while incomplete – suggest that first home buyers have generally purchased established rather than new dwellings, and purchased dwellings that are cheaper than the overall national average...⁴⁴

- 4.46 At the public hearing on 27 June 2014, Dr Kent of the RBA further argued that foreign investor and first home buyers are unlikely to compete for the same properties:

... the information available suggests that foreign residential purchases have probably not had a large direct effect on the price of housing that is typically purchased by first home buyers. While incomplete, the FIRB data and the information received through our liaison with developers suggests that most foreign residential purchases are for new, high-density, inner-city properties, as well as properties close to universities. Furthermore, the properties they purchase tend to be valued well above the average national sales price. In contrast, most purchases by first home buyers have been for established homes that are priced well below the national average.⁴⁵

- 4.47 Property Council of Australia also takes the view in its submission that the first home buyer market does not intersect with that for foreign investors:

80% of first-homebuyers purchase established homes and do not compete with foreign investors... competition is low between first-home buyers and foreign buyers, who are restricted to new housing.⁴⁶

- 4.48 Mr Mihno of the Property Council of Australia further expressed the view to the committee at the public hearing on 20 June that current foreign investment rules are not adversely impacting on first home buyers:

43 Dr Brent Davis, National Director, Industry Policy, Master Builders Australia, *Committee Hansard*, Canberra, 30 May 2014, p. 26.

44 RBA, *Submission 19*, p. 6.

45 Dr Kent, RBA, *Committee Hansard*, Sydney, 27 June 2014, p. 2.

46 Property Council of Australia, *Submission 25*, p. 3.

From our analysis the current data shows that our foreign investment rules are among the toughest in the world and they are not taking homes away from first home buyers. There is no significant impact on residential affordability. It does not push houses out of reach of the average Australian. There is simply not enough foreign investment to skew the residential market as a whole.⁴⁷

- 4.49 Nyko Property also considers the commentary on first home buyers being out-competed by foreign buyers to be inaccurate:

... we consider the 'noise' regarding overseas investors buying residential property in Australia and pricing first home owners out of the market as wildly inaccurate. Vision on our television networks of people of Asian appearance bidding at auctions and outbidding other Australians does, in our opinion, simply kindle xenophobia and is anathema to the long-term goal of Australian policymakers to further integrate our economy with Asia—the fastest growing economic region in the world. As we stated above, overseas investors can only buy new property (with some exceptions of course) and as such cannot be held responsible for rising prices in the established home market.⁴⁸

- 4.50 Mr Scott Haslem, Chief Economist, UBS Australia commented on the disparity between the price points at which first home buyers and foreign investors enter the residential property market in his opening statement at the public hearing on 29 August:

Can we see an impact of foreign activity on prices and thus first-homeowner affordability? The average purchase price by foreign citizens and temporary residents is much higher than the average of total national dwellings. The average purchase price by foreign citizens and temporary residents for established dwellings has trended around \$1 million in the last five years; for new dwellings, it has been around \$700,000. Both of these are well above the average of national turnover for that period, which is about \$550,000. Further, if we look at what first home owners buy, they buy established dwellings with a median or average price around \$328,000. On that basis, you would think there should be limited impact for first home buyers.⁴⁹

47 Mr Mihno, Property Council of Australia, *Committee Hansard*, Melbourne, 20 June 2014, p. 1.

48 Nyko Property, *Submission 28*, pp. [2-3].

49 Mr Scott Haslem, Chief Economist, UBS Australia, *Committee Hansard*, Canberra, 29 August 2014, p. 26.

4.51 Mr Haslem further commented on the issue of first time buyer affordability:

... it is nonetheless the case that, despite the strong pick-up in activity, with overall activity in housing in Australia up 21 per cent, first-home-owner activity is at a record low. This is more likely to do with a generalised lack of affordability than price pressures specific to greater foreign activity at an aggregate level, but the limitations of the data make it virtually impossible to measure the impact of higher foreign activity on prices, particularly in narrower segments of the market.⁵⁰

Conclusion

4.52 The committee is acutely aware that many in the community are struggling to afford a first home in the face of rising house prices. There are many factors involved in the strength of current property prices in Australia, some of which have been touched on in this report, but they are beyond the scope of this inquiry. Of interest in this regard, affordable housing is currently the subject of an inquiry by the Senate Economics References Committee which is due to report its findings by 27 November 2014.

4.53 The focus of this inquiry is whether foreign investment in Australia's residential property market brings benefits to the housing market. The committee is satisfied that it does and that it is a vital component of this sector of the economy. Importantly, the committee is also satisfied from the evidence received that foreign investment is not causing the market distortions that have been advocated in some quarters, particularly for first home buyers. This is because foreign investment levels are not large enough to do so overall and because overseas buyers mainly operate at a different price bracket from first home buyers and buy different types of properties.

4.54 Although foreign buyers represent only a small percentage of the housing market, they are vitally important to the continuing development of this sector. The housing supply issues that have been ongoing in Australia would worsen if foreign investment was curtailed. One of the likely outcomes of any restrictions on foreign buyers could therefore be further price increases – the opposite to what some in the community believe would occur if foreign investment was further restricted.

50 Mr Haslem, UBS Australia, *Committee Hansard*, Canberra, 29 August 2014, p. 26.

- 4.55 The issue of occupancy, in particular concerns around foreign owned properties being left vacant, was not dealt with in any great detail during this inquiry as the committee did not receive any hard evidence that this occurs with any regularity. The committee is cognisant, however, that this is a concern among many in the community and there are questions that may need to be addressed on this issue. The establishment of a property register may shed some light on this and help determine whether further investigation is warranted at a future point in time.
- 4.56 Another suggestion by some in evidence to the committee is that some new apartment developments in Australia are not being built to the usual standards for Australian occupancy, but rather are specifically being built for the overseas market. The committee notes in this regard that planning laws are set by State and Territory governments and that all buildings, commercial and residential, need to meet these standards. Any diminution of building standards is a matter that should be addressed by State and Territory governments.
- 4.57 As discussed in Chapters 2 and 3, the committee regards the current regulations around foreign investment in residential real estate to be appropriate. Foreign investment is needed for future residential developments to proceed and to therefore increase Australia's housing stock. However, as also discussed in Chapters 2 and 3, the laws need to be properly enforced and foreign investments must be trackable and measurable. This will increase public confidence in the current framework and enable proper oversight of its effectiveness by policy makers.

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Chair
24 November 2014