



SUBMISSION TO THE HOUSE ECONOMICS COMMITTEE INTO FOREIGN INVESTMENT IN RESIDENTIAL REAL ESTATE

This paper is the second submission to the House Economics committee into foreign investment in residential real estate by the Australian Bureau of Statistics. It clarifies the context in which foreign investment in real estate estimates exist in ABS Statistics, the ABS's position in relation to rest of the world in compiling these estimates, the bounds of confidentiality that apply, and avenues to gather more data.

*International and
Government Finance
Accounts Branch*

CONTENTS

Available ABS Data.....	2
Direct investment in Australian equity	2
Investment through a trust or other real estate investment vehicle	2
Investment directly into real estate	3
Emigration adjustments.....	3
Compiling Real Estate Estimates: a Global Perspective.....	4
Confidentiality	5
Information requirements and collection options	6
Foreign investment review board (FIRB) – data extension	6
Transfer and Title data.....	6
ABS direct collection	6
Appendix.....	7
Q1: Compiling Real Estate Estimates: a Global Perspective	7
Q2: Information requirements and collection options.....	9

AVAILABLE ABS DATA

The ABS measures foreign ownership of real estate as part of compiling Australia's Balance of Payments and International Investment Position. The aggregate data compiled annually by the ABS is not detailed enough to support the requirements of the current debate on foreign investment in Australian residential real estate.

The Balance of Payments and International Investment Position are core components of Australia's macroeconomic statistics, used by Government for developing and evaluating macroeconomic policy. The conceptual framework for these statistics is set out in an international standard, the International Monetary Fund's Balance of Payments and International Investment Position Manual, Sixth Edition (BPM6). Direct investment is defined in the international framework as:

BPM6 6.8. Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. As well as the equity that gives rise to control or influence, direct investment also includes investment associated with that relationship, including investment in indirectly influenced or controlled enterprises (paragraph 6.12), investment in fellow enterprises (see paragraph 6.17), debt (except selected debt set out in paragraph 6.28), and reverse investment (see paragraph 6.40). The Framework for Direct Investment Relationships (FDIR) provides criteria for determining whether cross-border ownership results in a direct investment relationship, based on control and influence.

Investment in real estate is one component of foreign direct investment in Australian equity. The estimate is based on limited information. Some of the limitations of the data were described by the ABS to the House Economics Committee inquiry into foreign ownership of residential real estate on 25 June 2014. The estimate is not separately published and is indistinguishable from other elements of the total foreign direct investment in Australian equity. Further, it does not differentiate between residential, commercial or agricultural real estate.

BPM6 6.31. Direct investment may include real estate investment, including investment properties and vacation homes. As discussed in paragraphs 4.26–4.40, branches or notional units are identified when non residents own real estate and other natural resources. The normal ownership threshold for influence or control under the FDIR is applied. Because it may have different motivations and economic impact from other direct investment, if real estate investment is significant, compilers may wish to publish data on such investment separately on a supplementary basis.

DIRECT INVESTMENT IN AUSTRALIAN EQUITY

The concept of direct investment includes, and is dominated by, foreign investment in Australian corporate structures such as, investment in mining companies, manufacturers, banks and insurers. As at 31 December 2013, total foreign direct investment in Australian equity was estimated at \$458b, with a net increase over the year of \$10b, due to transactions.

Table 1: Key Aggregates for Context (\$ million)

	2009	2010	2011	2012	2013
Foreign Investments: Levels	1,986,363	2,043,137	2,100,249	2,248,552	2,499,363
<i>Of which is Direct Investment: Levels</i>	489,894	519,706	549,390	591,341	629,941
<i>Of which is Direct Investment in Equity Capital and Reinvested Earnings: Levels</i>	380,849	411,353	430,821	451,539	457,685
<i>Direct Investment in Australia: Transactions: Equity Capital</i>	16,421	8,859	21,845	15,593	9,551

Source: 5352.0 - International Investment Position, Australia: Supplementary Statistics, 2013. Table 14 and 15

INVESTMENT THROUGH A TRUST OR OTHER REAL ESTATE INVESTMENT VEHICLE

Foreign investment in property trusts and other real estate investment vehicles is an element of foreign investment in Australian equity. Investment in these vehicles is not separately identified from foreign investment in businesses providing 'other business services' – for example, legal services, accounting services, marketing services, computing and scientific services. As at 31 December 2013, total foreign direct investment in equity of property and business services businesses was estimated at \$33b, with a net increase over the year of \$3b. This estimate is based on a survey of the businesses involved and is considered to be of high quality. Foreign-owned businesses not classified to this sector may also own real estate, particularly more diversified investment vehicles.

Table 2: Foreign Investment in Australia: Level of Investment at 31 December by Industry Division (ANZSIC) of Investee(\$ million)

Industry	2009	2010	2011	2012	2013
Agriculture, forestry and fishing	np	np	624	np	np
Mining	92,403	98,295	113,467	124,051	121,016
Manufacturing	61,543	62,515	69,837	69,396	67,213
Electricity, gas and water	8,191	9,210	np	10,269	9,560
Construction	16,186	16,134	12,887	13,818	15,295
Wholesale & Retail trade	27,397	33,643	37,929	40,671	43,788
Accommodation, cafes and restaurants	4,429	4,869	5,417	5,547	5,952
Transport & Communication	26,558	24,688	26,637	26,334	25,894
Finance and insurance	56,967	64,804	60,264	65,052	64,913
Property and business services	16,849	20,687	26,120	27,760	33,136
Other Services	3,839	3,593	3,934	3,680	3,465
Unallocated	np	np	np	np	np
Total	380,849	411,353	430,821	451,539	457,685

n.p. - not available for publication

Source: 5352.0 - International Investment Position, Australia: Supplementary Statistics, 2013. Table 15

INVESTMENT DIRECTLY INTO REAL ESTATE

Foreign investors can own Australian real estate directly without investing through an Australian corporate structure. In this case, there is no Australian resident to survey and the value of this investment is modelled based on information on investment intentions from the Foreign Investment Review Board and media reporting in the national press and industry-specific periodicals. The modelled value of direct holding of real estate at 31 December 2013 was \$24b, with a net increase over the year of \$3b. This estimate is not separately published and is indistinguishable from other elements of the total foreign direct investment in Australian equity. It does not differentiate between residential, commercial or agricultural real estate. The estimate for real estate is considered to be of sufficient quality for the purposes of compiling Australia's total foreign direct investment liabilities.

EMIGRATION ADJUSTMENTS

When Australian residents emigrate, their holdings of Australian real estate are modelled and added to the estimate of total foreign direct investment in Australian equity. At 31 December 2013, the foreign holdings of real estate due to Australian emigration were estimated at \$48b, with a net increase over the year of \$1b.

Estimates of foreign holdings of Australian real estate are a significantly small contributor to key aggregate indicators. Estimated Foreign holding of Australian real estate contribute approximately 3% to the total stock of foreign investment in Australia.

COMPILING REAL ESTATE ESTIMATES: A GLOBAL PERSPECTIVE

The nature of foreign investment in real estate makes compiling, collecting and reporting information difficult for many countries. There have been no recent international comparisons of collection practices and procedures in respect to the compilation of foreign direct investment estimates.

The 2001 IMF publication *Foreign direct investment statistics, how countries measure FDI*¹ provides comparisons of countries that include in their FDI transactions data on the purchases and sales of land and buildings by non-resident enterprises and non-resident individuals.

Insert 1: Treatment of Ownership of Land and Buildings in FDI Transactions and Position Data²

Countries That Include Purchase and Sales/Ownership of Land and Buildings by Enterprises and Individuals in their FDI Data:								
Country	Transactions data				Position data			
	Enterprises		Individuals		Enterprises		Individuals	
	Inward	Outward	Inward	Outward	Inward	Outward	Inward	Outward
Argentina	✓	✓	✗	✓	✓	✓	✗	✓
Australia	✓	✓	✓	✓	✓	✓	✓	✓
Austria ¹	✓	✓	✓	✓	✓	✓	✓	✓
Belgium	✓	✓	✓	✓	✓	✓	✓	✓
Bolivia ²	NA	NA	NA	NA	NA	NA	NA	NA
Botswana ³	✓	✓	✓	✓	✓	✓	✓	✓
Canada	✓	✓	✗	✗	✓	✓	✓	✓
Chile	✓	✓	✗	✗	NA	NA	NA	NA
Colombia	NA	✗	NA	✗	NA	✗	NA	✗
Costa Rica	✓	✓	✓	✓	NA	NA	NA	NA
Croatia ⁴	✗	✗	✗	✗	✗	✗	✗	✗
Czech Republic ²	✓	✓	NA	NA	✓	✓	NA	NA
Denmark	✓	✓	✓	✓	✓	✓	✓	✓
Ecuador ²	NA	NA	NA	NA	NA	NA	NA	NA
Estonia	✓	✓	✓	✓	✓	✓	✓	✓
Finland	✓	✓	✓	✓	✓	✓	✓	✓
France	✓	✓	✓	✓	✓	✓	✓	✓
Germany ⁵	✓	✓	✓	✓	✓	✓	✓	✓
Greece	✓	✓	✓	✓	✓	✓	✓	✓
Guatemala ²	NA	NA	NA	NA	NA	NA	NA	NA
Hong Kong SAR	✓	✓	✓	✓	✓	✓	✓	✓
Hungary	✓	✓	✓	✓	✓	✓	✓	✓
Iceland	✓	✓	✓	✓	✗	✗	✗	✗
Indonesia	✗	NA	✗	NA	NA	NA	NA	NA
Ireland ⁴	✓	✓	✗	✗	✓	✓	✓	✓
Israel	✓	✓	✓	✓	✓	✓	✓	✓
Italy	✓	✓	✓	✓	✓	✓	✓	✓
Japan	✓	✓	✓	✓	✓	✓	✓	✓
Kazakhstan	✓	✓	✓	✓	✓	✓	✓	✓
Korea	✓	✓	✓	✓	NA	NA	NA	NA
Kuwait	NA	✗	NA	✗	NA	NA	NA	NA
Latvia	✓	✓	✓	✓	✓	✓	✓	✓
Luxembourg	NA	NA	NA	NA	✗	✗	✗	✗

^{1 2}, Foreign direct investment statistics : how countries measure FDI 2001 — Washington, D.C. : International Monetary Fund : OECD, 2003

g ⁶								
Malaysia ⁴	✓	✓	✓	✓	✓	✓	✓	✓
Mexico ⁷	✓	NA	✓	NA	✓	NA	✓	NA
Netherlands	✓	✓	✓	✓	✓	✓	✓	✓
New Zealand	x	x	x	x	x	x	x	x
Nigeria	x	NA	x	NA	NA	NA	NA	NA
Norway ⁸	✓	✓	✓	✓	✓	✓	✓	✓
Peru	x	✓	x	x	✓	✓	x	x
Philippines	✓	✓	✓	✓	NA	NA	NA	NA
Poland	✓	✓	✓	✓	✓	✓	✓	✓
Portugal	✓	✓	✓	✓	✓	✓	✓	✓
Russia	✓	✓	✓	✓	✓	✓	✓	✓
Singapore	✓	✓	✓	✓	✓	✓	✓	✓
Slovak Republic	✓	✓	✓	✓	✓	✓	✓	✓
Slovenia	✓	✓	✓	✓	✓	✓	✓	✓
South Africa	✓	✓	✓	✓	✓	✓	✓	✓
Spain	✓	✓	✓	✓	✓	✓	✓	✓
Sweden	✓	✓	✓	✓	✓	✓	✓	✓
Switzerland	✓	✓	x	x	✓	✓	x	x
Thailand	✓	✓	✓	✓	✓	✓	✓	✓
Tunisia	✓	✓	✓	✓	✓	✓	✓	✓
Turkey	✓	✓	✓	✓	NA	NA	NA	NA
United Kingdom	✓	✓	✓	✓	✓	✓	✓	✓
United States ⁹	✓	✓	✓	✓	✓	✓	✓	✓

Insert 1, shows that Australia is among the few countries that produce data on foreign ownership of land and buildings, be it by means of direct data collection or estimation.

There has been little discussion internationally on comparative approaches to compilation of these estimates. The ABS has conducted some literary research and little information appears to be available. In order for the ABS to provide further information on comparative approaches will require significant time and resource allocations for bilateral enquiries.

CONFIDENTIALITY

The ABS is bound by confidentiality and disclosure policies and is unable to provide or publish without written consent any data that may enable identification of a particular person or organisational unit. Depending on the level of disaggregation it may not be possible for the ABS to provide or publish estimates for foreign investment in real estate even if it was possible to derive estimates.

As an Australian Government agency, the ABS complies with our obligations under the *Privacy Act 1988* (Privacy Act) and manage information in accordance with the Australian Privacy Principles. The Australian Privacy Principles regulate how we may collect, use, disclose, store information, and allow access to information. Further information on rules and bounds of confidentiality and disclosure policies can be found on the ABS website.

INFORMATION REQUIREMENTS AND COLLECTION OPTIONS

The aggregate data compiled annually by the ABS is not detailed enough to support the requirements of the current debate on foreign investment in Australian residential real estate. The ABS notes the complexity, burden and resource requirements involved with acquiring the required information from respondents and views opportunities in existing administrative and state transfers and titles data as preferable.

The ABS believes that the most promising option is to increase the information collected as part of the administrative processes of the FIRB or state transfers and titles offices.

The ABS would need the following information to generate a comprehensive estimate for foreign investment in residential real estate:

- Market value of property transacted:
 - To generate quarterly transactions and stock of residential real estate estimates.
- Settlement date:
 - To allocate transactions to the period in which the transaction took place, in accordance with change of economic ownership principles in the BPM6 framework.
- Residency of investor:
 - To determine the nationality of the counterparty to the purchase and allow for alignment of direct invest to counterpart country.
- Australian Residency status of purchaser:
 - To determine whether a purchaser is a permanent resident, long-term or non-resident resident. Determination of this will allow for appropriate treatment in the international investments accounts.
- Seller residency:
 - To mitigate the risk of including out of scope non-resident to non-resident transactions, and having an effective view of existing stock.
- Purchaser Type, Corporation (and ABN) or individual:
 - To identify corporate based ownership structures that may have foreign investors, and allow for derivation of foreign holding through such structures.

FOREIGN INVESTMENT REVIEW BOARD (FIRB) – DATA EXTENSION

Data available from FIRB does not meet requirements for use by the ABS. Extension of the data to include settlements by country of investor would facilitate better estimates for residential real estate. However, assumptions and a usability assessment of the information will have to be undertaken to assess its fit for use in accordance with our guiding frameworks.

TRANSFER AND TITLE DATA

Extensions on state transfers and titles offices administrative data have the capability to meet the ABS's requirements to derive high quality estimates. By extending requirements to collect Market value of property transacted, settlement date, residency of investor, residency status of purchaser, seller residency and purchaser type all required dimensions to generate quality estimates will be available.

ABS DIRECT COLLECTION

It is not feasible for the ABS to independently collect data on foreign investment in residential real estate. The ABS believes it would place a reporting burden on respondents who already report through administrative systems (FIRB and Titles).

APPENDIX

Question 1 from the House economics committee into foreign investment in residential real estate

Question on notice: Is there a country that measures data in order obtain information relating to foreign investment in real estate particularly well? And if so what could we learn from them?

Dr CHALMERS: Just to pick up on the international aspect that Dr Hendy mentioned. You say that a lot of countries have difficulty in measuring this sort of data. Is there a country that does it particularly well? Is there a gold standard and, if so, what could we learn from them?

CHAIR: That was going to be my question.

Mr Mahoney: Not that I am aware of. The OECD used to collate a lot of information about how countries collected foreign direct investment and what was included and excluded by member countries. They have not done that recently, but we could go back to the last time that survey was run by the OECD to see if there are any countries that do a particularly good job of measuring investment directly into real estate and how they are doing it. Nothing springs to mind. To a large extent what we have recognised is that it is an area of poor coverage.

Answer:

Q1: COMPILING REAL ESTATE ESTIMATES: A GLOBAL PERSPECTIVE

The nature of foreign investment in real estate makes compiling, collecting and reporting information difficult for many countries. There have been no recent international comparisons of collection practices and procedures in respect to the compilation of foreign direct investment estimates.

The 2001 IMF publication *Foreign direct investment statistics, how countries measure FDI*³ provides comparisons of countries that include in their FDI transactions data on the purchases and sales of land and buildings by non-resident enterprises and non-resident individuals.

Insert 1: Treatment of Ownership of Land and Buildings in FDI Transactions and Position Data⁴

Countries That Include Purchase and Sales/Ownership of Land and Buildings by Enterprises and Individuals in their FDI Data:								
Country	Transactions data				Position data			
	Enterprises		Individuals		Enterprises		Individuals	
	Inward	Outward	Inward	Outward	Inward	Outward	Inward	Outward
Argentina	✓	✓	✗	✓	✓	✓	✗	✓
Australia	✓	✓	✓	✓	✓	✓	✓	✓
Austria ¹	✓	✓	✓	✓	✓	✓	✓	✓
Belgium	✓	✓	✓	✓	✓	✓	✓	✓
Bolivia ²	NA	NA	NA	NA	NA	NA	NA	NA
Botswana ³	✓	✓	✓	✓	✓	✓	✓	✓
Canada	✓	✓	✗	✗	✓	✓	✓	✓
Chile	✓	✓	✗	✗	NA	NA	NA	NA
Colombia	NA	✗	NA	✗	NA	✗	NA	✗
Costa Rica	✓	✓	✓	✓	NA	NA	NA	NA
Croatia ⁴	✗	✗	✗	✗	✗	✗	✗	✗
Czech Republic ²	✓	✓	NA	NA	✓	✓	NA	NA
Denmark	✓	✓	✓	✓	✓	✓	✓	✓

³ ², Foreign direct investment statistics : how countries measure FDI 2001 — Washington, D.C. : International Monetary Fund : OECD, 2003

Ecuador ²	NA	NA	NA	NA	NA	NA	NA	NA
Estonia	✓	✓	✓	✓	✓	✓	✓	✓
Finland	✓	✓	✓	✓	✓	✓	✓	✓
France	✓	✓	✓	✓	✓	✓	✓	✓
Germany ⁵	✓	✓	✓	✓	✓	✓	✓	✓
Greece	✓	✓	✓	✓	✓	✓	✓	✓
Guatemala ²	NA	NA	NA	NA	NA	NA	NA	NA
Hong Kong SAR	✓	✓	✓	✓	✓	✓	✓	✓
Hungary	✓	✓	✓	✓	✓	✓	✓	✓
Iceland	✓	✓	✓	✓	✗	✗	✗	✗
Indonesia	✗	NA	✗	NA	NA	NA	NA	NA
Ireland ⁴	✓	✓	✗	✗	✓	✓	✓	✓
Israel	✓	✓	✓	✓	✓	✓	✓	✓
Italy	✓	✓	✓	✓	✓	✓	✓	✓
Japan	✓	✓	✓	✓	✓	✓	✓	✓
Kazakhstan	✓	✓	✓	✓	✓	✓	✓	✓
Korea	✓	✓	✓	✓	NA	NA	NA	NA
Kuwait	NA	✗	NA	✗	NA	NA	NA	NA
Latvia	✓	✓	✓	✓	✓	✓	✓	✓
Luxembourg ⁶	NA	NA	NA	NA	✗	✗	✗	✗
Malaysia ⁴	✓	✓	✓	✓	✓	✓	✓	✓
Mexico ⁷	✓	NA	✓	NA	✓	NA	✓	NA
Netherlands	✓	✓	✓	✓	✓	✓	✓	✓
New Zealand	✗	✗	✗	✗	✗	✗	✗	✗
Nigeria	✗	NA	✗	NA	NA	NA	NA	NA
Norway ⁸	✓	✓	✓	✓	✓	✓	✓	✓
Peru	✗	✓	✗	✗	✓	✓	✗	✗
Philippines	✓	✓	✓	✓	NA	NA	NA	NA
Poland	✓	✓	✓	✓	✓	✓	✓	✓
Portugal	✓	✓	✓	✓	✓	✓	✓	✓
Russia	✓	✓	✓	✓	✓	✓	✓	✓
Singapore	✓	✓	✓	✓	✓	✓	✓	✓
Slovak Republic	✓	✓	✓	✓	✓	✓	✓	✓
Slovenia	✓	✓	✓	✓	✓	✓	✓	✓
South Africa	✓	✓	✓	✓	✓	✓	✓	✓
Spain	✓	✓	✓	✓	✓	✓	✓	✓
Sweden	✓	✓	✓	✓	✓	✓	✓	✓
Switzerland	✓	✓	✗	✗	✓	✓	✗	✗
Thailand	✓	✓	✓	✓	✓	✓	✓	✓
Tunisia	✓	✓	✓	✓	✓	✓	✓	✓
Turkey	✓	✓	✓	✓	NA	NA	NA	NA
United Kingdom	✓	✓	✓	✓	✓	✓	✓	✓
United States ⁹	✓	✓	✓	✓	✓	✓	✓	✓

Insert 1, shows that Australia is among the few countries that produce data on foreign ownership of land and buildings, be it by means of direct data collection or estimation.

There has been little discussion internationally on comparative approaches to compilation of these estimates. The ABS has conducted a skirmish and little information is readily available. In order for the ABS to provide further information on comparative approaches will require significant time and resource allocations for bilateral enquiries.

Question 2 from the House economics committee into foreign investment in residential real estate

Question on notice: With the knowledge that you have and the roles you play at ABS, could you make a recommendation of what the ideal situation to capture data would be? Also, what information could you provide on this issue of foreign investment into residential real estate if you were able to gain data of the highest integrity?

Mr BUCHHOLZ: This is the fairy godmother question and the hypothetical: with the knowledge that you have and the roles you play at ABS, could you make a recommendation or paint me a picture of what the ideal situation would be? Mr Coleman touched on a scenario about capturing the data at a different entry point and he mentioned the titles and stamps offices at the state level. Can you paint me a picture of what the world would look like for you to be able to get data that is of the highest integrity?

Mr Mahoney: I think Mr Coleman made a very good suggestion about having information flowing through from the registry offices. The alternative would be, as we have already discussed, to have the mandate of the FIRB extended to look at investment outcomes or the outcomes of intentions rather than just the intentions for review.

CHAIR: Do you want to take that on notice and have a think about it. It is quite an important question. I think it would be helpful for the committee's deliberation if you could think about this and also about better engagement between agencies in relation to the information that is require

Answer:

Q2: INFORMATION REQUIREMENTS AND COLLECTION OPTIONS

The aggregate data compiled annually by the ABS is not detailed enough to support the requirements of the current debate on foreign investment in Australian residential real estate. The ABS notes the complexity, burden and resource requirements involved with acquiring the required information from respondents and views opportunities in existing administrative and state transfers and titles data as preferable.

The ABS believes that the most promising option is to increase the information collected as part of the administrative processes of the FIRB or state transfers and titles offices.

The ABS would need the following information to generate a comprehensive estimate for foreign investment in residential real estate:

- Market value of property transacted:
 - To generate quarterly transactions and stock of residential real estate estimates.
- Settlement date:
 - To allocate transactions to the period in which the transaction took place, in accordance with change of economic ownership principles in the BPM6 framework.
- Residency of investor:
 - To determine the nationality of the counterparty to the purchase and allow for alignment of direct invest to counterpart country.
- Australian Residency status of purchaser:

- To determine whether a purchaser is a permanent resident, long-term or non-resident resident. Determination of this will allow for appropriate treatment in the international investments accounts.
- Seller residency:
 - To mitigate the risk of including out of scope non-resident to non-resident transactions, and having an effective view of existing stock.
- Purchaser Type, Corporation (and ABN) or individual:
 - To identify corporate based ownership structures that may have foreign investors, and allow for derivation of foreign holding through such structures.