REAL ESTATE INSTITUTE OF AUSTRALIA

REIA SUBMISSION TO THE SENATE ECONOMICS LEGISLATION COMMITTEE INQUIRY INTO THE FOREIGN INVESTMENT REFORM (PROTECTING AUSTRALIA'S NATIONAL SECURITY) BILL 2020

AND

FOREIGN ACQUISITIONS AND TAKEOVERS FEES IMPOSITION AMENDMENT BILL 2020

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REIA SUBMISSION TO THE SENATE ECONOMICS LEGISLATION COMMITTEE

The Real Estate Institute of Australia (REIA) is the national voice and body for the real estate profession in Australia.

Established in 1924 as a federated body of Real Estate Institutes, REIA represents 80pc of the Australian real estate industry. Agency businesses represent 46,793 Australian businesses and employ 133,360 Australians. 99 per cent of real estate agencies are small businesses; and in the past five years agents have facilitated on average around 500,000 sales per annum.

REIA's members business cover residential and commercial real estate which includes major real estate outlets and business operators in cities and regional Australia.

The REIA represents an important element of the broader property and construction sector which together makes a significant contribution to Australia's social and economic development. Property contributes $300 billion annually in economic activity and 1 in 4 Australian jobs directly and indirectly.

REIA is committed to providing and assisting research and well-informed advice on a range of issues affecting the property market and welcomes the opportunity to reiterate our concerns to the Senate Economics Legislation Committee.

Background

The REIA has previously made submissions to Treasury on the *Foreign Investment Reform (Protecting Australia's National Security) Bill* 2020[1] and *Foreign Acquisitions and Takeovers Fees Imposition Amendment Bill* 2020. [2]

These submissions outlined five key recommendations to level the playing field for investment in Australia's residential property sector.

Rationale

Foreign investment activity in residential property has declined

Foreign investor activity in residential real estate **has declined in the last four years – from over 40,000 in 2015/16 to 7,500 in 2018/19.** It is during this period that some states also introduced fees on the purchase of residential property by foreign investors.

Anecdotal information from agents operating in this area is that the cumulative impact of Commonwealth and State government fees **has contributed to the decreased demand from foreign investors.**

REIA also observed that **this plunge in demand by foreign investors negated the benefits of foreign investment by reducing supply of housing rather than increasing it.**

[1] Source: Real Estate Institute of Australia, available here
[2] Source: Real Estate Institute of Australia, available here

An increase in fees should reflect the cost of making the assessment

REIA supports the proposal to increase penalties applicable to residential real estate provided they are treated no differently to other forms of investment.

However, REIA further strongly suggests that if fee increases beyond CPI changes are to be set by regulation that a mechanism be introduced that provides for stakeholder input. CPI increases were supported but that beyond that a justification would need to be presented to stakeholders for consultation.

In our subsequent submission to Treasury on the *Foreign Acquisitions and Takeovers Fees Imposition Amendment Bill* 2020 REIA expressed its extreme disappointment with the fee structure proposed. This disappointment is based on the apparent lack of equity in the fees between different types of investments and the proposed increases from present fees for residential.

For any particular value, the proposed fee for residential is twice that for agricultural and fifty times that for commercial land and business. REIA understands that the fees are based on the principle that the applicant pays the cost not the Australian tax payer. **It is difficult to fathom that the complexity involved with the assessment of a residential property is twice that of agricultural land and fifty times that for commercial property.**

Even more difficult to fathom is the proposed level of fees on assets where there is a notifiable national security action compared to residential property. The Explanatory Memorandum gives the example of such an asset with a value of $210 million and a proposed fee of $52,800. This is the same fee level as a residential property valued at $5 million. Again, it is difficult to see how the complexity involved with the assessment of an asset with a national security risk is the same as a residential property at a fraction of the value.

The REIA also notes that the proposed fee increases for residential property up to the value of $6m are 30% or more whilst for properties of greater value the increase is half of that. The rationale for the disparity in proposed fee increases is not apparent.

REIA remains concerned that the proposed changes to FIRB application taxes will precipitate a further decline in foreign investment in residential real estate and decrease the supply of housing.

Further by discouraging investment in an activity which is supporting economic recovery it appears to be at odds with the Government's initiatives to stimulate building activity through HomeBuilder and increasing support for its First Home Buyers Deposit Scheme for new builds. In that submission REIA recommended that all fees be structured to reflect the cost of undertaking the assessment and administration.

REIA notes that the Productivity Commission in a 2020 Research Paper on Foreign Investment in Australia said that fees were taxes rather fees and that they were set at levels disproportionate to the cost of delivering the regulatory regime. The Commission noted that in 2017/18 $114 m in fees was collected yet operational costs were $14.7 m. This is a fee to cost ratio of 8.

Recommendation: REIA recommends that all fees be structured to reflect the cost of undertaking the assessment and administration – not just in total but for each category.