

8 April 2013

Committee Secretary
House of Representatives Standing Committee on Economics
PO Box 6021
Parliament House
Canberra ACT 2600

Email: economics.reps@aph.gov.au

Dear Sir/Madam,

Foreign investment in residential real estate

The Urban Taskforce is pleased to make this submission to the House of Representatives Standing Committee on Economics as our contribution to the Committee's investigation into foreign investment in residential real estate. We strongly advocate for government policy and legislation that supports residential development. We argue that investment in new residential development projects assists in the delivery of much needed housing and also stimulates growth of our construction industry. In New South Wales we face a critical housing shortage. 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.

To meet future housing demand and address past undersupply problems, New South Wales needs to produce in the order of 32,000 new homes each year. At best, we have produced only 21,000 homes in a year. Based on current population growth data, we know that unless significant change occurs in housing delivery, the problem will worsen.

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. However, we agree that it is good government practice to ensure that policy is periodically reviewed. The Urban Taskforce welcomes this review, provided that the review is blind to nationality of investor.

The review must be blind to nationality of foreign investor

While this review is said to consider **foreign investment** in residential real estate, we fear that the review will focus on Chinese investment. Focusing on a particular Country's investment is counterproductive and dare we say, xenophobic.

The Urban Taskforce urges the Standing Committee to consider foreign investment generally and resist pressure from those who would have us believe that it is simply Chinese investment in real estate that is driving increases in the cost of housing. Media coverage on this matter has been one-sided, suggesting that there is a flood of unregulated money from China causing real estate prices, especially in Sydney, to soar. The claims are that foreign investment, in residential real estate, particularly from China is on the increase.

Foreign Investment in residential real estate is on the decline

The evidence provided in the recent *Foreign Investment Review Board Annual Report 2012-13* does not support claims of ever increasing foreign investment. For instance, total foreign investment in residential property in Australia has actually been falling from a high of \$20.92 billion in 2010-11 to \$19.7 billion in 2011-12 to \$17.2 billion in 2012-13¹. Reports based on the Foreign Investment Board and Australian Bureau of Statistics data suggest that the Chinese contribution of the total foreign investment in residential real estate to be approximately \$5 billion per annum. However this is in a market that saw \$250 billion in residential property being sold. While 2 per cent of the market is a worthy contribution to new housing, it is not considered to be at a level to warrant the community concerns and intense media scrutiny of late.

There is no doubt that residential property investment from China is the highest with Chinese investors purchasing \$5.9 billion in all real estate, which includes commercial real estate. It should be noted that commercial real estate is almost twice that of foreign investment in residential real estate. Other countries such invest in Australian real estate. Canada invested just under \$5 billion in Australian real estate and the Americans invested \$4.4 billion.² Based on these figures alone, the focus on Chinese investment is not warranted.

The policy does skew investment to new development

Notwithstanding any of the above, the overarching principle of Australia's foreign investment policy, as it applies to residential property, is that the investment should increase Australia's housing stock and in this regard, the policy channels foreign investment into activity that directly increases the supply of new housing (such as new developments of house and land, home units and townhouses). We support such a policy and agree that it brings benefits to the local building industry and its suppliers.

A government policy that enables foreign investors to seek approval to purchase new dwellings and vacant land for residential development should continue. By generally prohibiting foreign investors from buying established dwellings as investment properties or homes will skew development to new housing delivery. The data provided in the *Foreign Investment Review Board Annual Report 2012-13* shows this. In the 2010-11 reporting period only \$3.77 billion of foreign investment went to existing housing while \$12.54 billion went to new developments. This was much the same in the following period with \$4.18 billion of foreign investment going to existing housing with \$13.46 billion going to new developments. Even with a significant reduction in off-the-plan sales of late, \$8.64 billion of foreign investment went to new development.³ Foreign investment in new dwellings is different from the rest of the market, where new dwelling investment is a minor portion of housing finance.

Housing affordability will be addressed with improved planning systems

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. The Government should look closely at the development contribution system, where the development industry is seen as the cash cow, being relied upon to fund expensive infrastructure in return for development approvals. The Government should investigate the imbalance in the community consultation process where the vocal minority to given a voice and opportunity to limit worthy development proposals in the guise of undesirable impact on the local amenity. If the Government

¹ Commonwealth of Australia, 2014, *Foreign Investment Review Board Annual Report 2012-13*. p. 29

² *Ibid* p. 32

³ *Ibid* p. 29

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.

If the Committee is to accept evidence from those who made submissions I would welcome the opportunity to address the Committee when it visits Sydney.

Yours sincerely

Urban Taskforce Australia

Chris Johnson AM
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