

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

SUBMISSION TO THE INQUIRY INTO FOREIGN INVESTMENT IN REAL ESTATE

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This inquiry and this submission

This inquiry by the Economics Committee of the House of Representatives addresses the economic effects of foreign ownership of residential real estate in Australia and, in particular, whether such foreign investment is directly increasing the supply of new housing and bringing benefits to the local building industry and its suppliers.

This submission takes a broad view of "the economic" to address some broader aspects of the benefits and disbenefits of foreign investment in residential real estate in Australia. In doing so it is necessary to include political, social, environment and other effects which impact upon the wellbeing of the Australian community including things not easily measurable.

The submission especially considers the impact of Chinese investment as it has been very widely written about and is evidently giving rise to the greatest concern within Australian. Given growth projections and scale of the Chinese economy, it is also likely to be the most significant source of foreign investment attracted to Australian residential real estate for the foreseeable future. Thus, investment from China deserves the Committee's particular attention in its report on this matter.

Introduction

The international commoditisation of residential real estate appears to have gained pace in recent years. This has included the widely reported foreign acquisition of higher end real estate in cities such as London and New York. The motivation appears to vary and includes the inactive storing of value by higher net worth individuals, international risk spreading and as potential escape bolt holes by Russian oligarchs, Middle Eastern oil barons and the like.

Quite apart from the motivation of individual foreign investors, it is important to recall the monetary instability which saw unsustainable growth in asset values, including in real estate, and which culminated in the Great Financial Crash in 2008. This precipitated a collapse in economic activity and an increase in unemployment in the developed world. The recovery from that episode, measured by the recovery in economic activity, improvements in employment and returns to labour have been muted. Notwithstanding that, asset values, including in urban real estate, have since grown significantly and especially in Australian cities.

In fact, it has been suggested that there is now a rush to invest in real assets such as real estate and utilities in the wake of disappointment over the rate of return offered by stocks and bonds, a trend encouraged by the merchant banking community. ⁽¹⁾

Michael Goldfarb, writing in *The New York Times* in October 2013, said that property in London has become a global reserve currency. The property market, in Goldfarb's view, "...is no longer about people making a long-term investment in owning their shelter, but a place for the world's richest people to park their money at an annualized rate of return of around 10 percent. It has made my adopted hometown (London) a no-go area for increasing numbers of the middle class." ⁽²⁾

This may be going on in Australia as well. However, it is impossible to establish the nature and extent of such activity as a consequence of the failure of successive Commonwealth governments to require the collection of adequate official data on foreign ownership of real estate in this country.

Current regulations permitting foreign ownership of residential real estate

On the face of it, the current regulations which apply to foreigners seeking to purchase residential real estate are clear enough.

Subject to application to the Foreign Investment Review Board, a foreigner with a 12 month temporary residency visa or who holds a bridging visa which permits them to stay in Australia until their application for permanent residency is finalised may purchase an established dwelling to use as their home in Australia. Such persons may normally purchase new dwellings unconditionally. They may also purchase vacant land for residential development, subject to conditions, including that residential construction should commence within two years of the purchase.

Foreign non-residents and short-term visa holders may invest in residential real estate provided that the investment adds to the housing stock. Thus, non-resident foreign persons may not buy established dwellings as investment properties or as homes. However, like temporary residents they may also buy new dwellings, normally free of conditions, and purchase vacant land for residential development, subject to conditions, including that residential construction should commence within two years.

My failed requests for adequate information on foreign ownership of residential real estate

To gain an understanding of the scale and geographic location of foreign purchased residential real estate. on 10 April 2010, I addressed the following questions to the Foreign Investment Review Board:

"I would appreciate it if you could advise as follows of recent acquisitions of established residential properties in Australia by foreign nationals. Show separately for multi-occupancy and single-occupancy dwellings for the 12 month periods March 2008 to 2009 and March 2009 to March 2010:

1. Total acquisitions of such properties in each Australian state and territory;
2. Total acquisitions of such properties in each state and territory capital city;
3. Total acquisitions of such properties in the City of Boroondara, Victoria;
4. Total acquisitions of such properties located in postcodes 3103 and 3104;
5. Total acquisitions by country of nationality of the purchaser in each of items 1 to 4 above (If jointly owned by a foreign national and an Australian national show the foreign national)
6. Average purchase valuations in each of items 1 to 4 above."

In response the Foreign Investment Review Board advised on 9 June 2010 in the following terms that the information I asked for is not available:

"I refer to your letter to Mr Colmer dated 6 April 2010. The only data available is contained in the Foreign Investment Review Board Annual Report 2008-09, which is available electronically on the FIRB website www.firb.gov.au

The information on residential real estate is contained on pages 28-35 of the report. No other data is available.

David Gower
Foreign Investment and Trade Policy Division
The Treasury"

On 30 January 2014, I asked Prime Minister Abbott for location-specific information on foreigner purchases of residential real estate in the City of Boroondara, Victoria:

"I would appreciate if you could advise me of the numbers of multi-occupancy and detached residential properties in the City of Boroondara (Victoria) and in postcode area 3104 purchased by foreigners in each of the years 2009, 2010, 2011, 2012 and 2013.

Could you please also advise of the number of purchases by foreign nationality in each of these residential property categories for each of these years."

I have since reminded Mr Abbott of this request but at the time of writing this submission I have not received a substantive response.

Given the lack of robust data on the issue, for the purposes of establishing what is going on citizens are forced to rely on much less satisfactory sources of information on the scale of presence of foreign buyers in the Australian residential real estate market.

This may include the examination of property titles to identify changes of ownership. This is of limited value as the fact of foreign ownership is not required to be declared on title documents. Such searches are also expensive and time consuming.

Another potential source of data in Victoria is the list of electors for local government elections. As non-citizen owner-occupiers of residences in Victoria are eligible to vote in local government elections, their numbers may potentially provide some indication of the scale of foreign owners of residential real estate. However, inquiries made at local government level suggest that the numbers of the non-citizen owner occupiers who register to vote in local government elections is extremely low, and therefore probably unrepresentative of actual numbers of foreign residential property owners.

Census data on the numbers of persons by country of birth may be another crude indicator of the rate of growth in foreign ownership of real estate in particular areas. For instance in the suburb of Balwyn North in the period between the Census' of 2001 and 2011, when the total population remained fairly static, the Australian-born population declined as a proportion of the total, from about 64.7% to 62.7% of the total, whilst the Chinese-born proportion of the population increased from 3.0% to 7.2%. However, the data is not an indicator of the scale of foreign ownership of residential real estate in the area, as many such owners could be expected to be absent for most of the time. Also, it appears that a sizeable proportion of such properties may be unoccupied or tenanted.

Data currently available

The little data currently available on foreign purchases of residential real estate is to be found in annual reports of the Foreign Investment Review Board. And it is only available on an Australia-wide basis. The 2012-13 annual report shows that reported purchases of existing residential properties by foreigners rose from 647 in 2009-10 to 5,091 in 2012-13. In the same period purchases of vacant residential land increased from 1,010 to 1,821 and individual purchases of new dwellings increased from 1,937 to 4,499.⁽³⁾

Approvals by country of investor by industry sector in 2012-13 show that, for all categories of real estate, China was comfortably the major foreign source country with \$5,932,000 approved, followed by Canada, USA, Singapore, UK and Malaysia.⁽⁴⁾

Marketing to Chinese real estate investors

There exist a range of sources of other information which provide some indication of the extent to which the marketing of Melbourne residential real estate in China in particular has become a substantial business in recent years. These include, for example, the fact that in Melbourne, real estate agents extensively promote residential property sales through

Chinese language publications, which are prominently on display and available for pick up at real estate agents right across Melbourne.

In parts of suburban Melbourne it is very common to observe auction sales where the characteristics of those in attendance comprise an unrepresentative sample of the broader population, being in many cases predominately ethnic Chinese. In many such cases, too, it appears the successful bidders and under-bidders at auction are ethnic Chinese who do not speak English.

The sales literature and websites of many such real estate agents in suburban Melbourne heavily promote their capability to engage with foreign buyers. For instance, the webpage of Mandy Lee Real Estate, based in Box Hill in Victoria, recorded that:

"In addition, another salesperson (of the firm) is highly appreciated by the customers. Mrs. Lee said that it is common that real estate agent(s) take their customers to inspect properties here and there. However, this salesperson can even wake up at three in the morning, **picking up customers at the airport** (emphasis added) and bringing them to inspect the property. And when the purchaser wishes to view the floor plans of a property, our salesperson will even get back to the office at 11:00pm or midnight to prepare all materials for the presentation. The purchaser was extremely pleased with the level of service and happily introduced other clients to this salesperson."

Another employee was praised as an "integral part of the Mandy Lee sales team... (He) is respected for his tireless work ethic and easy-going nature. In 1989 David immigrated to Australia from Xiamen China. With Ten years experience in Sales Service, David's energy and openness combine with Chinese culture background and excellent sales skills help him gain experience, network and reputation. Having made the move to Mandy Lee Real Estate, David has introduced an exciting new dynamic to the sales team, where his life-long passion for real estate is similarly shared. With his strong language and communication skills, **David gains a lot of overseas buyers.** "

A nearby real estate agent, Eastfield Real Estate in Whitehorse Road, Surrey Hills declared :
"The name Eastfield maybe new to you however, our sales team is well known in the real estate market, especially in the Boroondara, Whitehorse, and Manningham areas. Our Director, Mr. Wendell Hu, has over 10 years experience in the real estate industry, and his ability to speak English, Mandarin and other Asian dialects fluently, is just one of the many reasons Wendell is so very successful in **having established a very large client base of local and overseas buyers.**

More overseas buyers generally mean a "Quick Sale" and a "Better Result."

Ascend Real Estate, situated in Doncaster East, claims to "have the ability to tap into the hidden market of the wider Asian and overseas community" which it says "means a quick sale, whilst extracting the best value for the selling vendor."

It has been claimed that real estate agents are strongly marketing Melbourne residential property to Chinese investors in spite of laws that prevent sales to foreigners.⁽⁵⁾ Agents including Barry Plant, Hocking Stuart, Century 21, Buxton and home builder Metricon reportedly included their Melbourne listings on a website aimed specifically at foreign buyers. The website gifang.com lists in Mandarin estate agents, their profiles and entire portfolios of Melbourne real estate in the Chinese cities of Guangzhou, Wenzhou, Ningbo, Changsha, Chongqing and Shenzhen.

Victoria's largest home builder, Simonds Homes, was reported to have 23 agents based in five Chinese provinces, including all the major cities. RMIT professor of planning, Michael Buxton, expressed the view that marketing to overseas buyers is irresponsible as it "... makes it harder to satisfy Melbourne's housing demand. It creates an artificial demand to increase developer profits, raises outer urban house prices and places more pressure on the urban growth boundary."⁽⁶⁾

Links with the immigration system and international capital flows

One estate agent was said to be getting "a lot of interest" from the relatives of people already living in Australia, or those looking online for their children. This prompts the question of the relationship between the regulation of immigration and demand by foreigners for Australian residential real estate.

However, the webpage of the Department of Immigration and Citizenship is an inadequate resource for those seeking to understand the complexities of immigration policy and programs and any assessment of the activities of the agency. It now presents primarily as an advertising medium for foreigners seeking entry to Australia as temporary visitors, to work, or for permanent entry. In fact, the departmental website gives the appearance of complementing the on-line efforts of the real estate agencies referred to above that promote the sale of Australian residential real estate offshore.

The Australian immigration system is very porous and is likely to facilitate significant investment in Australian real estate, much of which may go unreported and undisclosed publicly. It includes, since 2002, the provision for dual citizenship, and a generous business migration system which permits foreigners with a minimum of \$5 million to enter Australia.

The Australian Financial Review summed up the situation in this way:

"While the Australian Foreign Investment Review Board's laggard records show \$4.2 billion worth of Chinese money flowed into the Australian real estate market in fiscal 2012, the true value of Chinese money entering the real estate market is hard to establish. Australian citizens with money from their Chinese relatives and business associates are able to bypass the FIRB rules that say foreigners can only buy new housing stock."⁽⁷⁾

The current Business Innovation and Investment program, which replaced the discredited Business Migration program, may also be a conduit for the inflow of funds for little other than residential real estate purchases. It may also be an avenue for entry into businesses

where there are relatively low barriers to entry other than personal access to capital funds for purchasing businesses and residences.

Under this points-based program applicants are required to show that they have funds of no less than \$5 million and to have some business experience. There is no requirement to be able to speak English and applicants may be up to 55 years old. Successful applicants secure a provisional visa or permanent residency. The program has undertones of a device to lure "ultra high net worth" individuals, and little else.

Weaknesses in the Foreign Investment Review Board's on-line application and approval process came to light in March 2013 when "Chodley Wontok," a non-existent Russian national with a non-existent Australian visa was granted approval to purchase a house in the outer Melbourne suburb of Wantirna South.⁽⁸⁾

We have witnessed in recent years the phenomenon of rapid takeovers of vast numbers of suburban retail businesses where there are low professional and other barriers to entry by predominately Chinese speaking operators. These have included milk bars, hot bread shops, cafes, newsagencies, laundries and postal agencies. The major threshold for participation in most cases is the required capital to purchase the business, which in some cases would be substantial. Quite often the operators have a poor grasp of English or no spoken English.

It is expected that the most likely applicants are China's "new rich" and the program has been criticised for focusing on capital rather than entrepreneurship and economic value. The fact that the scheme was promoted to the former Labor government by the chairman of an Australian property fund underlines a strong link with the residential real estate industry.⁽⁹⁾

Residential properties may also be recorded for the purposes of the transaction in the name of temporary residents of Australia, where the property has been funded and is effectively controlled from offshore. Under current arrangements, it is also difficult to know what the scale of this capital inflow is because there are no Reserve Bank reporting requirements for money that enters the Australian banking system from offshore. It has been reported that one wealthy Chinese businessman regularly flies to Australia in a private aeroplane carrying suitcases of cash.⁽¹⁰⁾ One of the few reporting obligations for the international transfer of funds into Australia appears to be that of AUSTRAC for transfers of \$10,000 or more that are required to be reported for protection against money laundering and terrorist activity.

Negative impact of foreign residential investment on the urban environment

The impact on the urban environment of significant inflows of foreign funds into residential real estate in urban areas can be important and if not properly regulated, adverse. These effects are also underappreciated at official level. In fact, elite official opinion appears indifferent towards these effects. The head of the Victorian Department of Premier and Cabinet, Mr Andrew Tongue, reportedly told a transport conference in Melbourne in 2013 that governments could not dictate terms to Asian investors who favoured tall towers and small apartments because of a lack of other capital.⁽¹¹⁾

There has been a marked deterioration in the suburban residential environment in recent years in many areas in which overseas investors have been active. This is not wholly attributable to foreign investment in residential real estate but the trends are particularly noticeable in many areas in which foreign investment is apparently significant. Whilst we have runaway growth of Hong Kong style developments in inner Melbourne in particular, the middle suburbs are also being trashed with the overdevelopment of single occupancy sites in middle suburbs. We are headed towards the worst of both worlds.

Commentators on new residential construction in China itself have also noted the preference for copying foreign architectural styles. In this respect it has been argued that the Chinese identify their own culture with decline, with old buildings being a reminder of historical backwardness whilst achieving Western standards of living is a primary goal of modernization. Thus, developers copy foreign towns to gain cachet and increase prices, especially as those with money became more familiar with foreign styles. ⁽¹²⁾

Translated to Australian suburbs this has resulted in the demolition of large numbers of existing houses with little regard for their quality and replacement with new dwellings. Contrary to policy objectives there is no net increase in the stock of housing in these cases. There is a significant disregard for the natural environment and demonstrable low environmental sensitivity in the demolition of existing housing and their replacement with oversized dwellings which are often caricatures of styles of years gone by. These adverse trends have accelerated in many areas where overseas investment has been significant.

Neighbourhood character is being rapidly degraded in much of the City of Boroondara in Victoria, and particularly in the Balwyn and North Balwyn area. Asian investors reportedly account for between 60 and 70 per cent of residential sales in Balwyn and that Balwyn's median price climbed over 45 per cent for a recent 12 month period, well above the average for the Melbourne metropolitan area. ⁽¹³⁾

This infill development by oversized single residential developments is characterised by the dedication of front garden space to concrete aprons for parking and manoeuvring motor vehicles, oversized and opaque front fences, the removal and destruction of existing vegetation, including canopy trees, and a noticeable increase in unkempt road verges and nature strips. It is little surprise that these trends are proving too much for some residents who are selling up and moving out to other neighbourhoods that remain as attractive as the ones to which they were originally attracted.

Significantly, the adverse environmental and other effects of the construction of very large detached dwellings are facilitated by outdated and ineffective state and local building and environmental regulations which permit high building plot ratios, minimal permeable land surface area, excess building height and bulk, and the foregoing of back gardens altogether.

It is as if state and local authorities are complicit in the maximisation of the scale of individual residential construction to benefit building material companies and other real

estate and building industry providers at the expense of the quality of the built environment itself.⁽¹⁴⁾

Lobbyists, ideology and friends of China in the Australian political elite.

There is a certain quietism in the muted Australian official responses to growing Chinese interests in residential real estate. This may be viewed as one significant element of a wide passivity concerning things Chinese, which appears to be filtered through a particular multicultural ideology which permanently suspends judgements. It may be due in part to China's growing power and its established role as a customer for Australian raw materials and high expectations that China will be a growing consumer of Australian farm products and tourism services.

These influences are reflected in the fact many Australian ex- politicians and senior public officials of very senior rank are lobbyists for or have executive commitments to Chinese commercial interests. These include former prime minister, Bob Hawke, former foreign minister Alexander Downer, former Victorian premier, John Brumby, former Victorian industry minister Theo Theophanous , and former Queensland treasurer, Keith De Lacey. Seemingly, China is seen as a gravy train by much of the commercially oriented Australian political elite, and it is not be upset or contested.

According to the Foreign Investment Review Board, China did not rate at all as a source of foreign direct investment into Australia just a decade ago. In 2012-13, it ranked third behind the USA and Switzerland and preceded Canada, the UK and Japan for investment in all sectors and is now the largest foreign source of investment in real estate.⁽¹⁵⁾

China is on the march and it is different. A civilization state of 1.3 billion people, about twenty times the Australian population, with sustained GDP growth of 7.5 to 10.0 per cent annum in recent years, it has now displaced the U.S. as the major external influence on Australian domestic politics. It would be naive to believe that foreign investment on a significant scale does not come with cultural and political trappings. The Chinese system of government is highly authoritarian and there are ample illustrations that China will it will cultivate offshore constituencies to pursue its own foreign policy and commercial agendas.

Conclusions

The Australian government and people should not consider themselves to be the hapless victims of international flows of capital into Australian residential real estate, even though successive Australian governments have been behaving as though we are. Instead, we should behave as if we are the masters of our own destiny in protecting and developing the things we value the most. This includes our built environment and access to residential real estate at reasonable prices by our own citizens as a major priority.

Given that the informational base is so poor, quantitatively and qualitatively, there is an urgent requirement to establish what is actually going on. This includes the relationship between foreign residential real estate purchases and conditions of the Australian immigration program.

Footnotes

1. See J. P. Morgan, *The Realization. A new world, A new normal, A tectonic shift*, April 2012
2. Michael Goldfarb, "London's Great Exodus," *New York Times*, 12 October 2013
3. See Annual Report 2012-13 Foreign Investment Review Board, Table 2.8, p. 29
4. Annual Report 2012-13 Foreign Investment Review Board, Table 2.11, p. 32
5. Simon Johanson, "Ownership laws tested as agents target foreigners," *The Age*, April 21, 2012
6. Marika Dobbin, "Developers court overseas buyers amid fears of greater urban sprawl," *The Age*, February 7, 2011
7. Matthew Cranston and Rebecca Thistleton, "The Great Chinese Takeaway," *Australian Financial Review*, 20-26 December 2013
8. Chris Vedelago, "Foreign ownership rules 'a joke,' *The Age*, 28 March 2013
9. Melissa Fyfe and Royce Millar, "Wonky values in golden ticket visa program," *The Age*, November 23, 2012
10. Chris Vedelago and Philip Wen, "Chinese entrepreneur allegedly bringing in cash - filled suitcases," *The Age*, 4 November, 2013
11. Jason Murphy and Rebecca Thistleton, "Asian money dictates building: Bureaucrat," *Australian Financial Review*, 7 April, 2013
12. Ian Johnson, "Faking it in China," *New York Review of Books* blog, 6 June 2013
13. Greg Gliddon, "Overseas buyers hit Balwyn," *Progress Leader*, October 29, 2013
14. Madeleine Heffernan, "Who wins from China's property splurge?" *smh.com.au*, March 5, 2014
15. Annual Report 2002-03 Foreign Investment Review Board, Table 2.9, p. 30, and Annual Report 2012-13 Foreign Investment Review Board, Table 2.11, p. 32