

Introduction

Referral of the inquiry

- 1.1 On 19 March 2014 the Treasurer, The Hon Joe Hockey MP, referred an inquiry into Australia's foreign investment framework as it applies to residential real estate to the House of Representatives Standing Committee on Economics (the committee). The specific terms of reference for the inquiry are outlined in paragraph 1.6.

Background

- 1.2 Australia's foreign investment framework, with regard to residential real estate, aims to increase the supply of housing. As discussed in Chapter 2, the framework generally restricts foreign investment in residential property to new houses, land for development, or the redevelopment of existing properties to increase the number of dwellings.
- 1.3 All non-resident and temporary resident visa holders must seek foreign investment approval before acquiring interests in Australian residential real estate, unless otherwise exempt.¹ Temporary residents are permitted to purchase one established home to use as their residence while living in Australia provided it is sold once vacated.² Applications for proposed investments are submitted to The Treasury's Foreign Investment and Trade Policy Division.

1 The Treasury, *Submission 31*, p. 11.

2 The Treasury, *Submission 31*, p. 3.

- 1.4 The Treasury's Foreign Investment and Trade Policy Division administers Australia's Foreign Investment Review Framework in consultation with the Foreign Investment Review Board (FIRB) and in accordance with the *Foreign Acquisitions and Takeovers Act 1975* (the Act) and associated regulations and policy. FIRB is a non-statutory body established to provide advice on foreign investment policy and its administration.³
- 1.5 The inquiry is in response to concerns about whether the current regulatory framework for foreign investment into residential property is delivering the best social and economic outcomes for Australia.

Objectives and scope of the inquiry

- 1.6 The following terms of reference were referred for inquiry and report by 10 October 2014:

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. The policy seeks to channel foreign investment in the housing sector into activity that directly increases the supply of new housing (such as new developments of house and land, home units and townhouses) and brings benefits to the local building industry and its suppliers.

Consistent with this principle, foreign investors are able to seek approval to purchase new dwellings and vacant land for residential development. Foreign investors cannot generally buy established dwellings as investment properties or homes. However, temporary residents can apply to purchase one established dwelling to use as their residence while in Australia.

Notwithstanding these settings, concerns are raised periodically in relation to the possible impact of foreign investment on the Australian housing market.

In this context, the committee is asked to examine:

- the economic benefits of foreign investment in residential property;
- whether such foreign investment is directly increasing the supply of new housing and bringing benefits to the local building industry and its suppliers;

3 The Treasury, *Submission 31*, pp. 2, 11; Foreign Investment Review Board, *Annual Report 2012-13*, p. 3.

- how Australia's foreign investment framework compares with international experience; and
 - whether the administration of Australia's foreign investment policy relating to residential property can be enhanced.
- 1.7 In conducting the inquiry the committee adopted a holistic approach to examining whether the current policy settings are delivering the intended outcome for Australia. The inquiry did not focus on investors from any particular country into Australia's real estate market.

Conduct of the inquiry

- 1.8 The details of the inquiry are published on the committee's website. A media release announcing the inquiry and seeking submissions was issued on 19 March 2014.
- 1.9 The committee was originally requested to report by 10 October 2014 but was subsequently granted an extension to report by 28 November 2014 in order to consider additional evidence to the inquiry.
- 1.10 Ninety two submissions were received and are listed at Appendix A. The committee held public hearings on 30 May 2014 in Canberra, 20 June 2014 in Melbourne, 25 June 2014 in Canberra, 27 June 2014 in Sydney and 29 August 2014 and 24 September 2014 in Canberra. The witnesses who appeared are listed at Appendix B. The submissions and transcript of the public hearings are available on the committee's website at: www.aph.gov.au/economics

Structure of the report

- 1.11 Chapter 2 provides an overview of Australia's foreign investment framework as it relates to residential real estate and examines how the current framework could be improved.
- 1.12 Chapter 3 examines the current market for foreign investment in residential property and its economic impact. The lack of data on these investments and the consequences of this are discussed.
- 1.13 Chapter 4 discusses foreign investment with regard to accessibility and affordability in the Australian housing market. The key drivers of the property market are discussed in this context.

