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HD **Illegal but allowed, foreign deals push housing over top**

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A huge increase in **China**-based vendors offering Australian **property** shows the bubble's source

THE timing could hardly have been better — just as The Australian was lifting the lid on a wave of unlawful foreign **property** investment in Australia, the latest IMF report on the country's high housing prices landed with a thud.

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The International Monetary Fund's research found **property** prices here are the third-highest in the world in relation to income, and the fifth highest in the world in relation to rents received.

Despite the cramped returns, foreign capital from overseas — including a large swag from among **China**'s throng of 2.4 **million millionaires** — is pouring into Australian fixed **property** through the leaky sieve that is the Foreign Investment Review **Board**'s regulatory regime.

For former investment banker Bill Moss, who spearheaded the Macquarie **Group**'s move into **apartment** development in **China** in the mid-1990s, everything he warned about more than a year ago has come to pass.

"It is totally as predicted. The time to have had this debate was 18 months ago,'' he says. "**China** is such a large population, and it's got so many wealthy people, and there's a desire in the upper- middle class to move their money offshore.

"Australia is in the time zone and it's a logical place to move the money. Their whole society is based on real **estate** going up every year and producing capital gains, and that's just starting to unleash into Australia." Foreign investment in fixed housing has more than doubled within a year with the most recent figures showing offshore investors buying more than 5000 properties worth more than $5 **billion** in the previous financial year.

A federal parliamentary committee established to examine the **property purchase** loopholes has heard buyers are using children studying in Australia or law firms to **purchase** luxury properties, and investors regard the theoretically applicable $85,000 penalty as the "cost of doing **business**".

As The Australian has pointed out this week, this investment is essentially illegal in all but the narrowest of circumstances — yet, remarkably, it goes on all the time and has spawned a new **business** model for real **estate** agencies selling this real **estate** to foreigners.

At the same time, it has fed into the growing debate on housing affordability and — in the eyes of Moss and others — heightened the prospects of an eventual crash in Australian real **estate** prices when the tide turns.

"I think while interest rates are low, and as long as you have got more investors from **China**, I would have thought it's not going to collapse. (But) what happens to this market when the global recovery starts to take hold and the Australian dollar is dropping and people want to move money out?'' Moss says.

"We saw Dubai collapse — everyone said Dubai couldn't collapse, well it did collapse.

"People who have scraped and saved to **buy** their first home are suddenly left with no **equity** in it." Australia has legislated to curtail foreign investment to off-the-plan **property** only, with limited exceptions for temporary residents, who can **buy** an established home but have to sell it when they leave.

Through evidence given to a parliamentary inquiry examining foreign investment in Australian housing, it is now abundantly clear that on the inattentive watch of the FIRB this is being systematically abused, literally without sanction.

There are fines of $85,000, and even jail terms, for those investors caught out, but the regulator essentially conceded before the inquiry that there had been no prosecutions since 2010.

"Our preference (to prosecution) if non-compliance is detected is that we will seek to remedy that in consultation with the individuals and bring them back into a territory of compliance,'' Treasury official John Hill told the first public hearing of the house economics committee hearing into foreign investment in Australian real **estate**.

As the May 30 hearing wore on, FIRB chairman Brian Wilson sought to downplay the issue by batting away concerns about foreign investment in housing by suggesting they were simplistic or had a racist overtone.

"I think a lot of the commentary is around 'I turned up at an auction and a **Chinese** person bought it. It was an illegal **transaction** that has stopped my buying that **property**',' he said.

"I think we do need to put the activity in context. I am not saying that such a view is necessarily malevolent, but it is a popular view. We don't have concerns about people of Greek extraction buying properties or people of Italian extraction buying properties, because they are not so easily identifiable, I suppose." As much as Wilson may like to dismiss concerns as the angry thought bubbles of a bunch of envious racists, the reality is that Australians actually have legitimate concerns about a regulatory regime, which he is running, that appears to have more holes than a Swiss **cheese**.

The regulator has already been accused of smug indifference by one MP over its performance before the committee and Moss, who now chairs the advisory **firm** Moss Capital, says it is no surprise that savvy speculators, investors and agents were four or five steps ahead of the FIRB response.

In the days since the revelations of regulatory failure emerged in the hearing, The Australian has found numerous examples of essentially unfettered trade in Australian fixed housing to foreign investors.

The latest revelation is a fivefold increase in vendors in **China** offering Australian housing in recent years. Already, more than 100 agencies exist in mainland **China** offering Australian **property** to **Chinese** investors, much of it fixed or established housing.

Back in Australia, at the top end of the market, Mark Manners, director of Sydney prestige **property** agency Simeon Manners, explained his **company** ran a foreigners-only website offering Sydney mansions to foreign **millionaires** that is not even accessible if you have an Australian IP address. Either for reasons of price, privacy or expediency, vendors and developers are opting to sell houses or units directly to foreign investors without offering them to Australians in a move that does nothing to boost supply, but arguably drives up prices for the remaining stock here.

The typical stance from agents who sell high-end **property** to foreigners in this way is that it is a different market and doesn't affect affordability for first-home buyers or buyers on the middle or lower rungs. But the case of Adelaide's DG Real **Estate** provides a counter to these claims. Run by a former mainland **Chinese** man, DG has a sales team who are almost entirely ethnically **Chinese**, and sells **property** in the South Australian capital to wealthy mainland **Chinese** investors.

Although principal Simon Hou boasts of selling an Unley mansion to a **Chinese** investor for $4.2m recently, the bulk of DG's available stock on the multilingual website is about $400,000 to $500,000.

You would hardly think that Adelaide would be high on the list of cashed-up **Chinese** looking for a place to **park** their surplus capital away from the prying eyes of the Beijing government, but the success of DG proves otherwise.

DG principal Hou says there is rarely an issue with obtaining FIRB approval with his mainland **Chinese** clients and he had not had an application rejected in recent years.

One problem is that it seems that often the person buying may be a relative of the true purchaser, who remains overseas. There is no rigorous enforcement of the obligation to sell the acquired property within three months when the registered purchaser, often a student, leaves Australia.

FIRB has been labelled “naive” and unwilling to regulate these illegal practices and try to contain competition for fixed property from foreign buyers, but Moss says he believes it is almost impossible to police.

“I hear of people in China putting together syndicates to invest in property here — I am not sure how it can be fixed,” Moss says.

“When you have people buying property offshore through accountants based in Sydney, I am not sure: how you do regulate it?” The inquiry, chaired by Victorian Liberal MP Kelly O’Dwyer, has probed the failings of the FIRB regime, leaving some of the MPs on the committee — which reports in October — convinced that changes are needed.

But Moss says he doubts that the political will — or maturity — exists across the body politic in Australia to adequately deal with this issue.

“Does the government really want to police it or not? Or are (state) governments just more interested in getting stamp duty to balance state budgets?’’ he says.

“Federally, it is very hard to say we don’t want foreign investment. (Prime Minister Tony) Abbott has just made a big point saying we want foreign investment, so it’s very hard to turn around and say we do want it, but just not here and here (in particular areas of the economy).

“Where governments have to stand up here is in making housing affordable for the next generation.

“My whole fear is very simple — I don’t mind people investing in this country, but I do believe we do need to keep in balance relative rent and mortgage levels on residential houses. A lot of countries don’t leave their housing markets open to foreign trading. We need to have a debate about this.” The recent wave of “hot” money flooding into Australian residential property stems from wealthy Chinese investors’ desire to park wealth in jurisdictions that are outside the reach of the Communist Party, particularly in the wake of recent crackdowns on graft and corruption.

It also stems from a desire to milk the kind of double-digit returns from property investors have had in China until the market there began to cool in recent years.

China’s government-directed devaluation of the Chinese currency is also stimulating an outflow of capital into property markets in Australia and elsewhere. And it looks set to continue for now. China-based KPMG partner Peter Fung, the chair of the firm’s global China practice, is among commentators flagging that Beijing’s moves to boost the amount of foreign currency citizens can hold will unleash a new wave of Chinese capital into the Australian property market.

In Shanghai, the Sydney Harbour Luxury Property Exhibition is on next week. The exhibition is being sponsored by Australian constructor Lend Lease and its Mandarin-only website features panoramic shots of Sydney Harbour and advertising for apartments at 888 Collins Street in Melbourne.

As well as fixed homes, agents in China say that off-the-plan developments were well and truly on the radar screen of cashed-up Chinese buyers.

But Monash University demographer Bob Birrell says Chinese investors buying units here and chasing returns would be in for a nasty surprise, as the market in Melbourne, and to a lesser extent Sydney, is heading towards oversupply.

“The biggest losers in the long run are going to be the investors in these apartments because there are far too many of them,’’ he says.

Moss says even if there is a sensible debate in Australia on foreign investment in property, it may be too late and we should have considered following Hong Kong’s lead in recent years and imposed extra stamp duty on foreign investors to cool overheating.

“Hong Kong brought in regulation around stamp duty to stop capital flows — that was the time for us to have the debate. It worked in Hong Kong, why not here? Stamp duty is a good way to do it — it’s got to slow down the number of people who want to buy,” he says.

As politicians from both major parties pay lip service to issues of affordability, ALP MP Kelvin Thomson is perhaps the only member openly advocating that property prices need to drop in Australia.

He supports tighter enforcement on foreign investment in fixed housing and an end to laws giving temporary residents the right to **buy** homes here.

Mr Thomson says the view was starting to gain traction among younger people. “There could be shift coming. Parents and the older generation have to realise it is a better outcome to have their children being able to afford a home than them (the parents) owning many homes and handing one over to their children.”Monash’s Bob Birrell thinks attitudes and policy will be slow to change. “From a political point of view, there are far more voters interested in keeping prices high than there are people wanting to keep them affordable,’’ he says.

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