NIKKEI

HD **Australians debate foreign impact on high home prices**

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SYDNEY -- Australia has benefited greatly from closer ties with **China**, which is a major source of prosperity as its biggest export market. But now there are growing fears over **China**'s role in a market that is much closer to home: real **estate**.

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Increasing **Chinese** investment in Australian **residential property** has triggered a debate over whether foreign buyers are pushing up **property** prices, making homes less affordable for locals.

After a series of **purchases** of top-end properties by wealthy **Chinese** investors, fears that foreigners are to blame for expensive homes have even triggered a parliamentary inquiry into the issue.

The Reserve Bank of Australia's assistant governor, Christopher Kent, appeared before the inquiry last week. He said foreign investment made up about 5-10% of market turnover, or over 17 billion Australian dollars ($16 billion), last year.

"The data clearly show an increase in the level of approvals for foreign **residential purchases** over time, but it is difficult to know how much this has boosted net demand for Australian housing," he said.

While Kent was reluctant to assess the impact of foreign investment on prices, he did note that foreign buying had increased in the first nine months of the fiscal year through June 2014.

Indeed, UBS economist Scott Haslem reported official data showing the total value of approvals for overseas real **estate purchases** had surged 93% in the first nine months of the financial year, to A$24.9 billion.

As a share of total housing turnover, Haslem said foreign buying was now at a record high of 13%, compared with a long-term average of 8%. Most of this money is flowing into newly built homes rather than existing properties, so it should help to increase the supply of **property** and limit price rises. But he said the overall effect of foreign investment was that it will still push prices slightly higher.

Different purposes

The increase in foreign real **estate** investment is being led by **China**. In the fiscal year ended June 2013, **China** overtook the U.S. as the biggest source of real **estate** investment approved by the Foreign Investment Review **Board**, with approvals of A$5.9 billion.

In Sydney, there have also been reports of wealthy **Chinese** business owners purchasing luxurious harbor-side properties. For instance, the most expensive **property sold** this year in Sydney, worth about A$30 million, was **sold** to a **Chinese** buyer.

The increase in foreign buying is a sensitive issue in Australia because many younger people are finding it harder than ever to afford a first home.

Despite the **property** market showing signs of cooling off recently, first-time home buyers' share of loan approvals was at a record low of 12.3% in April, the Australian Bureau of Statistics reported last month.

However, economists say that although foreigners may be pushing up some house prices, this is not the main reason why homes are so expensive for young people.

The RBA's Kent told the parliamentary inquiry that foreign investment had "probably not had a large direct effect" on the properties bought by first-time home buyers, because overseas buyers typically bought houses that were priced above the national average. In contrast, most people buying their first house can only afford cheaper properties.

The Treasury, which advises the federal government on economic policy, also played down the impact of foreigners on pushing up **property** prices. With the key cash rate at a record low of 2.5%, it said cheap debt was a much more likely cause of expensive **property** prices.

"While foreign demand has recently risen, the increase in domestic investor and owner-occupier demand across both established and new dwellings in response to low interest rates has likely been much more significant," Treasury said in a submission to the inquiry.

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