



HD **Chinese** real **estate** invasion? Not according to the data, fellas

BY by Bernard Keane

WC 938 words

PD 10 March 2014

SN Crikey

SC CRIKAU

LA English

CY (c) Copyright 2014 Private Media Partners Pty. Ltd. All Right Reserved.

LP

Complaints about **Chinese** buyers inflating house prices miss the fact that foreign **residential property** investment encourages new housing construction.

<http://media.crikey.com.au/wp-content/uploads/2014/03/houseprice3.jpg>It's rare to see the Left and the Right reaching consensus, but it appears nothing can pull Australians together as much as the threat posed by **Chinese property** buyers.

TD

Today Paul "Magic Water" Sheehan offered his take on the impact of **Chinese** buyers on the Sydney **residential property** market. He [warned darkly in today's Sydney Morning Herald](#):

Sheehan, it seems, is was most worried about young people:

A pincer movement. Wow. But Sheehan was merely echoing Clive Hamilton, who recently [wrote an article for The Guardian](#) originally headlined "Wealthy **Chinese** buyers are making Sydney's housing problem worse". Hamilton's piece commenced:

Cash pouring in from **China** was responsible, Hamilton claimed—a "flood of unregulated investment". It touched on the same themes as Sheehan's piece later would: young people priced out of the market, official indifference, how **Hong Kong** doesn't let the same thing happen.

But the headline on Hamilton's piece was changed to "Foreign demand is making Sydney's housing problem worse" after an outcry from readers. The Guardian offered an apology almost as long as the article itself admitting a number of problems with Hamilton's article, although "the author stands by his opinion".

Hamilton and Sheehan aren't the only ones, though. This "flood" of unregulated money from **China** is becoming a staple of media real **estate** coverage, especially in Fairfax papers, which have carried articles about the **Chinese property** "splurge" as real **estate** prices, especially in Sydney, have soared.

Well, let's try some facts, courtesy of the Foreign Investment Review **Board's** [2012-13 annual report](#), which has data on who is buying **residential property**. Total foreign investment in **residential property** in Australia fell in 2012-13, from \$19.7 billion to \$17.2 billion. That was because of a fall in "off-the-plan" **purchases**; **purchases** of existing dwelling stock increased to \$5.4 billion (it had fallen in 2011-12), and **purchases** of vacant land had more than doubled to \$1.4 billion. Victoria and New South Wales dominate as destinations for foreign investment in **residential property**, garnering around \$5.8 billion and \$5.5 billion respectively.

But importantly, foreign **residential** real **estate** investment skews toward new dwelling construction: in 2012-13, despite the fall-off in off-the-plan purchasing, \$8.64 billion in foreign investment was for new dwellings, with a further \$2 billion for other development, while investment in existing dwellings was \$6.4 billion. The predominance of new dwelling investment in foreign **residential** investment is dramatically at odds with the rest of the market, where new dwelling investment is a fraction of housing finance.

Where does the investment come from? **Residential property** investment from **China** is substantial. **Chinese** buyers are the biggest foreign real **estate** investors: in 2012-13 they **purchased** just under \$6 billion in real **estate**—but that includes **commercial** real **estate**, which is twice as large a target for foreign investment as **residential** real **estate**. But Canada and the United States aren't far behind the

Chinese; Canadians invested just under \$5 billion in Australian real **estate**, and Americans \$4.4 billion. Singapore was next with \$2 billion, then Malaysia with \$1.6 billion; in between were the British, on \$1.7 billion.

So, even arbitrarily and xenophobically combining all **Chinese**, Singaporean, **Hong Kong** and Malaysian real **estate** investment under a “**Chinese**” stereotype means “**China**” is only just ahead of North American real **estate** investment (and again, remember that these figures include **commercial** real **estate**). And if you lump in the Brits and the Kiwis, investment from “white” foreigners exceeds that from “**Chinese**” foreigners.

Read many stories about white people driving up Sydney real **estate** prices? Of course not. Hard to get a good anecdote about white people showing up to an auction and bidding successfully for a **property**. “**Chinese**” buyers, even if their families have lived in Australia for a century, are easier to spot and complain about.

But let’s assume that all “**Chinese**” **property** investment—just over \$10 billion of it in 2012-13—was for **residential property**, which we know isn’t true. How much of an impact does that have? The total value of housing finance commitments (which isn’t all housing **purchases** anyway) was \$264 billion in 2012-13, so our “**Chinese**” stereotype is investing less than 4%.

And even if you think 4% is too high and is placing too much pressure on prices, ask sellers in Sydney and Melbourne what they think of foreign **residential** buyers. Chances are they’re perfectly happy to be getting higher prices.

There are legitimate grounds for concern about housing affordability, but they’ve got little to do with foreign **property** buyers, whether **Chinese**, Canadian or any other ethnicity. They’re related to land supply, planning laws, development approval processes, NIMBYism, the balance between local councils and developers financing the necessary infrastructure for new housing, and tax expenditures that encourage investment in existing housing stock. The best way to improve housing affordability—assuming that’s what you really want to do, given ultimately that will reduce the rise in value of the key asset of most voters—is to create incentives for investment in building new housing stock.

And oddly enough, at the moment it’s foreign investors who are doing that, not the rest of us.

RF <http://www.crikey.com.au/?p=427969>

NS ereal : Real Estate Markets | e11 : Economic Performance/Indicators | ecat : Economic News

RE china : China | austr : Australia | sydney : Sydney | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRIC Countries | chinaz : Greater China | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | easiaz : Eastern Asia | nswals : New South Wales

PUB Private Media Partners Pty Ltd.

AN Document CRIKAU0020140310ea3a00006