THE AGE
INDEPENDENT. ALWAYS.

SE Opinion - Opinion

HD **Don't blame foreigners for rising house prices**

BY STEPHEN KIRCHNER - Dr Stephen Kirchner is a research fellow at the Centre for Independent Studies.

WC 776 words
PD 20 March 2014
SN The Age
SC AGEE
ED First
PG 29
LA English

LP

Shoddy tax laws, not **Chinese** investors, are driving up the prices of new dwellings.

Foreign investors are not to blame for rising house prices. The real culprits are the taxing and regulating activities of Australian governments that raise the supply price of new housing.

TD

Despite this, the House of Representatives economics committee is set to inquire into the impact of foreign investment on the Australian housing market at the instigation of Treasurer Joe Hockey.

According to committee chair Kelly O'Dwyer, the inquiry will consider whether the current restrictions on foreign investment in **residential** real **estate** serve to increase supply, as is their stated intention, or raise prices.

This is rather like asking whether foreign tourists increase the production of goods and services or raise consumer prices. The answer depends on how flexibly Australian producers can accommodate changes in foreign as well as local demand through increased output.

It is pointless blaming foreigners for inflexible elements on the supply-side of the Australian economy. For that, we should blame local politicians.

Foreigners are currently restricted from buying established housing and need approval from the Foreign Investment Review **Board** for **purchases** of new dwellings. Special rules also apply to temporary residents.

The rationale for these restrictions is that they serve to channel foreign demand for real **estate** into new construction. However, this still creates indirect competition for established dwellings because local buyers are displaced from the market for new dwellings.

New dwelling construction responds to overall demand, not just demand from foreign investors. Whether this demand is accommodated through increased supply or rising prices is not a function of where the demand comes from, but the costs embedded in the supply-side of the housing market.

As the Centre for International Economics has found, as much as 44 per cent of the price of a new home in Sydney is attributable to explicit and implicit local, state and federal taxes.

If politicians are concerned about housing affordability, they should examine taxes and regulations rather than seeking to make scapegoats out of investors who supply much of the capital that funds new dwelling construction.

When foreigners **buy** domestic **property** they transfer overseas wealth to Australians in the form of either new dwellings or higher prices for existing dwellings. In the first instance, these wealth transfers will likely be to **property** developers building specifically for foreign and domestic investors. Once built, the **property** is available for rent or **purchase** in the secondary market. The developers' profits can fund further investment in housing.

Concerns have been raised that some foreign buyers leave **property** vacant. But they are no different in this regard from many local **property** investors. It is often rational to leave **property** vacant when prospective capital gains provide a sufficient return on the investment. This too is a function of the supply-side constraints Australian politicians have inflicted on **property** markets. Similarly, land banking is often a rational response to development controls that make new development too costly.

Chinese buyers have become a particular source of angst in recent years, although they remain minority players compared with investors from countries such as the US, Britain and Canada. These more traditional sources of foreign investment attract less attention, no doubt because buyers from these countries are harder to distinguish from the locals at auction.

When the federal government established a "community hotline" in 2009 so that locals could snitch on buyers supposedly breaching the foreign investment rules, it turned up some "**Chinese**" buyers whose families had been in Australia since the 19th century.

Concerns about foreign buying of **residential property** are driven more by anecdote than data. The oft-quoted FIRB statistics are not very insightful. They reflect only approvals rather than actual investment and are not even comparable over time.

Foreign buyers play a much greater role in the London market, which does not have Australia's restrictions on foreign investment. In Britain, Australia is now unfortunately seen as a model for how to turn away transfers of foreign wealth to locals. In reality, Australia demonstrates that housing affordability problems are entirely home-grown, not imported.

The government's foreign investment policy goes so far as to suggest that "some types of investment in real **estate** are contrary to the national interest". The existing controls over foreign investment in real **estate** serve no purpose other than to propagate that myth that Australia is worse off because foreigners want to add to the stock of real **estate** and national wealth.

NS ereal : Real Estate Markets | e1121 : Home Sales/Housing Affordability | emhpr : Housing Prices | nedc : Commentaries/Opinions | e11 : Economic Performance/Indicators | ecat : Economic News | ncat : Content Types | nfact : Factiva Filters | nfcpex : FC&E Executive News Filter

RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

PUB Fairfax Media Management Pty Limited

AN Document AGEE000020140319ea3k0004q

