HD **Aussie rules for overseas buyers won't solve London's housing bubble**

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London-based think tank Civitas has called for restrictions on foreign buyers as a solution to escalating house prices in the UK capital. They suggest the UK adopts a similar approach to that used in Australia.

No one would dispute the fact that something needs to be done, as London's housing problem is increasingly obvious. In the past year, house values in the city went up by 14.9%, and it is harder than ever for Londoners to get on the **property** ladder. This is underpinned by rapid population increases not being met by supply.

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Civitas points to international investment in the London housing market as a source of the price increase. It indicates that 10 to 15% of new build **purchases** in Greater London are made by foreigners, and that ratio is far greater in the city centre and among high end properties. With foreign investors exempt from capital gains tax, the concern is that London housing is being used as an investment rather than a place to live. This only fuels the price escalation.

The think tank's remedy is to impose controls on foreign investment in **residential** real **estate**, following the Australian model.

However it is not clear that this approach would help house prices or availability in London. It is not clear that it even does that in Australia, nor that it was meant for that purpose.

Adding to the stock

Foreigners cannot **buy** established **residential** real **estate** in Australia. They can invest in new real **estate** "only if it adds to the housing stock". This includes new dwellings, off-the-plan properties under construction, or vacant land for development.

All applications by foreigners must go to the Foreign Investment Review **Board** (FIRB), a body within the Australian Treasury. Applications are subject to an open-ended national interest test which typically includes national security, competition, impact on other government policies (including tax), impact on the economy and community, and the character of the investor. Where the proposal involves a foreign government, the **Board** can consider whether this would facilitate control by a foreign government.

FIRB approved 9768 applications for **residential** real **estate** in 2011/12, the most recent year for which data is available. But just 13 of all real **estate purchases** were rejected, 0.1% of applications – and that last figure includes **commercial** properties too. With overseas buyers having a 99.9% chance of approval, the system would appear to be having only a weak effect. That said, its role as a deterrent on foreign investment is unknown.

But what of the argument that foreign investors are more likely to have deep pockets which drive speculation, pushing up prices without increasing supply? Well, this is still possible under the existing system in Australia.

Priced out

The relative influence of foreign investment on house prices in Australia compared with local buyers is unknown, even if established real **estate** is not available. However, we do know that foreign investors make up about 12.5% of "new **property** demand" in Australia, a figure comparable to London's.

The available data on housing **purchases** is not broken down by investor's country of origin. However, for total real **estate purchases** including **commercial** properties, the biggest four in value by far are the

USA, Singapore, **China** and the UK. Again, there is a similarity here: Singapore and **China** make up two of the top three nationalities of overseas buyers of central London **property** (the other is **Hong Kong**).

Australia's foreign ownership rules have failed to stop prices rising way above inflation in the big cities. Sydney, with nearly five million residents, saw prices rise 11% last year for established homes and 5% for new homes which tend to be further from the city centre. This also appears surprisingly comparable to London, although the spread of prices may be less, and the market is smaller.

Land is easier to come by in Sydney than in London, and planning thresholds are lower too. But other factors are at work, such as the "Dutch disease" of high prices transmitted from the Australian mining boom, and the ongoing unique system of "negative gearing" which gives **property** tax advantages over other forms of investment.

So, foreign investment restrictions have not stopped house price increases in Sydney, but nor are the increases likely to be significantly due to foreign demand. In fact insofar as the foreign investment rules act as a deterrent, they also apply to foreign investment in **residential** construction and might just as well limit housing supply. This could also be the case if they were applied in the UK.

The Australian system does not explicitly include high prices in its criteria, although of course they could be considered. Although FIRB deliberations do not have to be released, it seems unlikely that rejection of a proposal has occurred on the basis that the offer is too high.

It is odd that the solution proposed in the UK is one that is toothless or even potentially restricts housing supply in Australia. New policy is certainly called for to address the London housing crisis, but there is nothing to suggest that the Australian approach as it stands is the solution.

This is the third piece in our Housing 2020 series, exploring the major policy issues facing housing over the next five years. Click on the links below to read the other pieces.

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