

SE Features  
HD DONT BUY INTO THE CHINA CRISIS  
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We should ignore suggestions foreigners are pricing locals out of the housing market

AT the dinner parties of inner Sydney, the supposed role of Chinese investment in real estate is the hot topic. "Pat's daughter Ruby is trying to buy a house and she's been outbid by Chinese bidders at the last four auctions."

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It's somehow unfair that they're prepared to pay a higher price. There's a sense the government ought to be doing something about it.

The conversations are whipped along by media reports of real estate agents alleging Chinese residents are illegally buying property on behalf of non-resident relatives, and broking analysis claiming Chinese buyers are snapping up one in five new properties in Sydney and one in seven in Melbourne.

It was only four years ago that we were having identical conversations. In early 2010, the level of anecdote about Chinese buyers reached such a pitch that the Rudd government acted, and reversed a liberalisation of the rules governing foreign investment in real estate that it had pushed through little more than 12 months beforehand. Pauline Hanson had made waves declaring she would not sell her Queensland home unless her agent, LJ Hooker (itself founded in the 1920s by a great Australian-Chinese entrepreneur), could guarantee it would be sold to a white Australian. Coalition spokesman Kevin Andrews blamed foreign buyers for putting housing out of the reach of young Australian-born families. "Foreign investment should be in the productive capacity of Australia, not residential housing," he said. Labor strategists feared it might become an election issue.

In late 2008, the thought that Asian investment might support property prices had been the express intent of government policy. The financial crisis had generated an alarming collapse of house prices in the US and Europe. Treasury feared a similar collapse in Australia.

Assistant treasurer Chris Bowen announced he was implementing recommendations of a 2006 deregulation taskforce to the Howard government, led by former Productivity Commission chair Gary Banks, that called for a relaxation of the Foreign Investment Review Board reporting requirements for temporary residents purchasing property.

The rules over foreign investment in new property were also liberalised so foreign developers were not penalised if all property was not sold within two years.

As it emerged that Australia was not plunging over an economic precipice, residential property prices started to rise, boosted by record low interest rates. In 2009-10, they soared 27 per cent in Melbourne and 15 per cent in Sydney. Announcing that the easing of rules would not only be reversed but tightened further, ensuring temporary residents faced crippling penalties if they failed to sell a property after leaving the country, the assistant treasurer Nick Sherry conceded the government was acting in the absence of firm evidence. "We don't know how much these investors were affecting the market in the first place. There was evidence that investors are buying it, but to what degree we don't know apart from anecdotal evidence."

During the next 20 months, there was a 25 per cent fall in new building approvals. The problem was particularly severe in NSW which, with a third of the population, was building just 20 per cent of new dwellings. It was less than Victoria or Queensland and little more than Western Australia. The crackdown on foreign investment in real **estate** was not the only cause, but it contributed.

Lost in the current debate is that foreign investment in real **estate** adds to supply. There is a difference in the rules regarding foreign **purchase** of established and new **property**.

Temporary residents may **purchase** a single established **property** while they are here but must sell on departure so, with relatively stable inflows and outflows of temporary residents, there is no net effect on the **property** market. However, foreign residents may **purchase** newly built **property**.

There is no doubt their interest is supporting the revival of new **residential property** construction, particularly of apartments.

In NSW, the number of new apartments gaining council approval each month has more than doubled since the end of 2012 and is now at a record high.

Testifying before the House of Representatives economics committee last week, Reserve Bank governor Glenn Stevens noted foreign investors in real **estate** were generally confined to newly built accommodation.

"It cannot be beyond our capacity over time to meet that demand and to meet the legitimate demands of our own citizens for structures as well, can it?" he asked, adding if it were, then we should ease the constraints to lifting supply before choking the demand.

One of Tony Abbott's best appointments was putting Andrew Robb in charge of trade and investment.

There is no doubt he sees the benefit of financing additions to our housing supply and the merit of foreign investment in bringing needed funds into the country.

The FIRB records in the last financial year, it approved investments in **residential** and **commercial** real **estate** totalling \$51.9 billion (of which **China** provided about 10 per cent).

Not every investment that gets approved occurs, but that is enough to finance Australia's annual current account deficit. Both the government and the opposition should ignore the real **estate** tattle.

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