



HD Are foreign investors making the Australian dream unaffordable?

BY Greg Hoy

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Debate on foreign investment in Australian homes has grown as prices continue to rise and concerns over housing affordability continue amid fears of a coming housing bubble in Australia.

LEIGH SALES, PRESENTER: The boom in the nation's housing prices recently has been so extraordinary that many first-time buyers are wondering if owning their own home is going to be beyond them forever.

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There's much discussion about whether cashed-up foreign buyers, along with record low interest rates and a short supply, are driving the inflated prices.

There are calls from some quarters for higher tax rates or other restrictions on foreign investors so that Australian buyers aren't disadvantaged.

Greg Hoy reports.

GREG HOY, REPORTER: Super Saturday, a spring auction, sprang into action on the weekend. One thousand, five hundred Australian homes changed hands.

AUCTIONEER 1: Once, twice, third and final call.

AUCTIONEER 2: **Sold.**

AUCTIONEER 3: It's **sold.**

AUCTIONEER 4: It's **sold.**

AUCTIONEER 1: Going, going...

AUCTIONEER 5: **Sold**, congratulations.

GREG HOY: Rapid population growth and low interest rates are fuelling strong demand. Tax incentives are encouraging tremendous investor interest, while foreign investment regulators seem comfortable with surging overseas demand for Australian homes.

TIM HEAVYSIDE, AUCTIONEER: The pricing is definitely going up at the moment, international money coming into the country. But I can tell you what: there's also a lot of Australian buyers also competing with those international buyers.

AUCTIONEER 2: We're selling... **Sold.**

GREG HOY: While the Treasurer and the Reserve Bank differ on whether a dangerous bubble may be building with rising house prices, the growth nationally is incredibly uneven. This graph charts rising home values in Australian capital cities since late 2008. In just six years, Melbourne and Sydney have climbed around 50 per cent, leaving all other capitals well below.

TIM LAWLESS, HEAD OF RESEARCH, RP DATA: The positive side of that is that those people that own **property** across Sydney and Melbourne have seen a very significant increase in the level of wealth. The downside, of course, is that we're starting to see more risk now in terms of investor concentrations around

the Sydney and Melbourne marketplace and, potentially, the likelihood that values will overshoot the mark and we may see a correction on the other side of it.

GREG HOY: Speculation is building the Reserve Bank may change the rules to limit the number of buyers that can borrow more than 80 per cent of the value of a home. Such measures were endorsed yesterday by the visiting head of the International Monetary Fund, Christine Lagarde, who encouraged the Reserve Bank to consider taking action to avoid a housing bubble bursting.

CHRISTINE LAGARDE, MANAGING DIRECTOR, INTERNATIONAL MONETARY FUND: I believe that the Australian central bank under the strong leadership of its governor will be able to deal with it.

GREG HOY: Tighter borrowing restrictions would make it even harder for first home buyers in Australia but would have no affect on buyers from overseas.

TIM HEAVYSIDE: What a great day to call an auction.

GREG HOY: Under Foreign Investment Review **Board** regulations, it is illegal for foreign nationals to **purchase** existing Australian homes. There is growing concern the rules are being flagrantly flouted.

TIM HEAVYSIDE: We're not police officers; we're **estate** agents getting the best price for our vendors.

GREG HOY: The FIRB insists the number of overseas buyers is quite small.

TIM LAWLESS: It works out to be only about 4.5 per cent of all Australian home sales have been to foreign buyers. But the risk in those numbers: that they're potentially being underreported due to the poor monitoring of foreign buying into Australia's marketplace.

AUCTIONEER 6: We're on the market, don't have another one like it.

AUCTION BIDDER: Let's say in **Hong Kong**. I mean normal, you know, starting price for the **apartment**: I mean, they say there's poor people (inaudible) they start from HK\$4 million already.

GREG HOY: Which is the equivalent of?

AUCTION BIDDER: You just divide it by (inaudible) It's the equivalent: around \$600,000.

GREG HOY: For an **apartment**?

AUCTION BIDDER: An **apartment**, which I think is only this half size.

GREG HOY: Though he wouldn't give his name, this man bid at three auctions we know of on Saturday. He says he was helping friends in Australia **buy** a home - though he agrees there's considerable interest here from offshore investors in **China**.

AUCTION BIDDER: They think the Melbourne market is very reasonable price for them and they can afford.

LEE SALCE, AUCTIONEER: Where they **buy**, usually the market goes up considerably: anywhere between 10 to 15, even to 20 per cent above market.

GREG HOY: Where's the money coming from?

LEE SALCE: Predominantly from **China**.

(To bidders) 801 and a quarter.

I'd say that, percentage wise, if we were to sell 10 properties to offshore people, I'd say 70 per cent would be owner/occupiers and 30 per cent would be investors still living overseas.

(To bidders) Yes? No? Maybe?

GREG HOY: Auctioneer Lee Salce says some homes snapped up by foreign buyers then sit empty.

LEE SALCE: And the buyer buys and they tell us they're moving in. And then we drive by three or four or five months later and there's no one in the home. We can't control that.

(To bidders) It's **sold**. Thank you, ladies and gentlemen. Thank you for your attendance. I wish you all a very fine weekend.

KELLY O'DWYER, FEDERAL LIBERAL MP: There needs to be a national register that means that I can answer the question: how much of our **residential** retail market is actually owned by foreign investors? At the moment today, I can't give you that response.

GREG HOY: Federal Liberal MP Kelly O'Dwyer chairs a parliamentary committee examining recent trends in foreign ownership and regulations that are meant to restrict it.

KELLY O'DWYER: The evidence, though, is in that the Foreign Investment Review **Board** has not been doing its job properly. The Foreign Investment Review **Board** has not had one prosecution since 2006. They say that that is to do with the fact that people are being far more compliant. I think that defies credibility.

GREG HOY: The chairman of the Foreign Investment Review **Board** wasn't available for interview but has previously stated that, with the resources given to it by Government, the FIRB simply cannot police the 600,000 or so **sale transactions** each year. But ominously for the FIRB, that defence is simply unacceptable to some.

KELLY O'DWYER: I do think it is an excuse. It's a bit of a cop-out for the Foreign Investment Review **Board** to say that it is all a matter of resources. I think it is also a matter of leadership and a matter of attitude.

GREG HOY: While foreign ownership of existing homes is banned, it's perfectly legal for foreign investors to **buy** new dwellings in Australia.

This policy has encouraged an explosion of **apartment** towers in Melbourne and Sydney: 50,000 apartments in Melbourne alone with far more in the pipeline. Every one of these towers in central Melbourne, for example, is being developed by offshore companies for offshore investors. Not everyone is convinced it's a good thing.

BOB BIRRELL, PROF., URBAN RESEARCH, MONASH UNI.: There is a bubble in the production of small apartments in inner city areas and I don't think there's any doubt that there will be a bust in that subsection of the housing market.

GREG HOY: To address that fear and ease growing concerns about housing affordability, there is a strong expectation regulations will have to change.

TIM LAWLESS: In the US, for example, is the fact that foreign buyers do get taxed a lot more heavily than do local buyers. And I think that will be one of the key findings. So one of the key recommendations coming down from the current inquiry that's underway from the Foreign Investment Review **Board** is that there will be a higher tax associated with foreign buying and there will be stricter rules around the enforcement and monitoring of foreign buying activity across Australia.

AUCTIONEER 7: What's it worth? Start me where you like.

AUCTIONEER 8: At \$400,000 now. First call.

AUCTIONEER 9: At \$750,000...

AUCTIONEER 10: One million, one hundred and forty-five, madam.

AUCTIONEER 7: **Sold**.

AUCTIONEER 9: **Sold**.

AUCTIONEER 11: **Sold**.

LEIGH SALES: Greg Hoy reporting.

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