

HD RBA Suggests Foreign House Buying Helping In Econ Rebalancing

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-Foreign Buying Stimulating Local House Construction
-Foreign Buying May Be Boosting Prices At Higher End

By Sophia Rodrigues

SYDNEY (MNI) - Foreign buyers aren't the main drivers of increasing housing activity in Australia but their demand may be helping in the rebalancing of the economy, the Reserve Bank of Australia said.

The RBA made the comments in its submission to the House of Representatives Economic Committee Inquiry into Foreign Investment in **Residential Real Estate**. That inquiry was prompted by media coverage suggesting foreign buyers were driving up prices and making it harder for locals to **buy** homes.

The RBA's submission is based mainly on approvals data from the Foreign Investment Review **Board** and also through its liaison with housing market contacts.

"Overall, these data suggest that foreign **residential** approvals have remained relatively steady as a share of the housing market in Australia and hence are unlikely to have been the main driving factor behind the recent increase in overall activity," the RBA said.

"Nonetheless, there is evidence that foreign **purchases** play a more prominent role in some parts of the housing market than in others," the RBA said, referring to FIRB data on **purchases** by individuals of new and established dwellings which showed average prices have consistently been much higher than the average actual sales price nationally.

"Taken at face value, this suggests that the **purchases** by foreign and temporary residents tend to be concentrated in the higher-priced parts of the housing market, although it is possible that this average is somewhat elevated by a few approvals to **purchase** very high-priced homes," the RBA said.

Australia's foreign investment laws generally permit foreigners to only construct new dwellings or **buy** new dwellings. The only foreigners allowed to **buy**

existing dwellings are temporary residents with visas that allow them stay in Australia for a continuous period of more than 12 months, where the home is used as principal place of residence and must be **sold** once vacated. Included in this are foreign-owned companies that can **purchase** established properties to house their Australian-based staff.

The RBA said FIRB data show the value of approved foreign investment in **residential property** has increased to over A\$17 billion in 2012-13 from around A\$6 billion annually in the 1990s. But their share has remained broadly steady, fluctuating between 5% and 10%. In 2012-13 it was in the middle of that range. While the share of approvals to **purchase** established dwellings rose during this period, the result overall was still only 3% of the total value of turnover, the RBA said.

The Senate Committee is mainly looking to examine the economic benefits of foreign investment in **residential property** and whether such investment is directly increasing the supply of new housing and brings benefits to local building industry and its suppliers.

The inquiry follows media reports in recent months about foreign investors, including those from **China**, driving up house prices in cities like Sydney and Melbourne and making first home buying unaffordable.

It is possible that such reports didn't take into account that some overseas buyers may be Australian permanent residents or citizens. RBA's head of financial stability Luci Ellis pointed to this at a conference earlier this month when she said, "I will note that have also been a large number of Australian residents who happen to come from greater **China** and I wonder whether some of the more sought-after high temperature commentary about this has not been able to distinguish between people who have moved here versus people who don't live here."

In a testimony in March, RBA Governor Glenn Stevens acknowledged wealthy foreign investors have an interest in Australia and their role is quite prominent in cities like Sydney.

He, however, compared such interest to any other form of foreign investment and noted specifically that foreign investors were generally confined to buying new dwellings.

In the submission, RBA said, "foreign demand for Australian dwellings can - and has - provided a stimulus to the local **residential** construction industry, which accounts for around 9% of total employment in the Australian economy and is more labour intensive than most other industries."

Such demand has been especially helpful in boosting construction activity in the current stage of the economic cycle, the RBA said, adding, its liaison with developers showed they faced little difficulty sourcing the skilled labour required for the construction of new dwellings, especially given the softening of investment in the mining industry.

In terms of the impact of foreign **residential** developers in adding to the overall supply of new dwellings in Australia, the RBA said it was more difficult to determine, "although on balance it is probably positive."

The RBA said it recognizes dwelling **purchases** and construction by foreign residents can increase the exposure of the Australian housing market to business cycles offshore, and any net capital inflow could increase the value of the Australian dollar. But "these inflows appear to have relatively small to date," the RBA said.

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