HD Foreign ownership talk

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Treasury figures show in the nine months to March 2014, there has been a substantial jump in the number of foreign investment approvals and the majority is for new dwellings

THERE'S been a lot of discussion recently about the impact of foreign buying on Australian real estate – specifically whether foreigners are pushing up prices and also making it too hard for young Australians to buy their first homes.

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There's a federal parliamentary inquiry and various submissions from authorities such as the Reserve Bank and the Federal Treasury reflect the same thing real estate agents are seeing on the ground.

While the amount of foreign buying has increased significantly in the past couple of years, it remains a small portion of overall real estate transactions.

Foreign buyers are pushing up prices to an extent in certain pockets – but not to an unsustainable level. As is the case with any **sale** where you have good competition, prices can be pushed higher.

What many are asking; is foreign demand pushing up property prices? The RBA describes the impact on prices as material. That means there's an impact but it's not overly concerning. The whole idea behind our FIRB rules is to allow foreign investment if it increases supply, which is why overseas-based investors can only **purchase** new properties. Therefore, a spike in foreign demand will **lead** to an increase in supply and that's a good thing. But because it takes a while for new supply to come online, the intermediate effect is an increase in prices because of increased competition for available stock.

Now for the most important point, foreign buyers are generally not competing with first-home buyers – for two reasons. First, foreigners tend to buy higher priced properties. The average price of a foreign-purchased established property in 2012-13 was over $1m and about $650,000 for a new property. This compares with Australia's median capital city **sale** price today of $545,000 (RP Data) and the national average loan size for first home buyers at $303,800.

Secondly, most first-home buyers are still purchasing established dwellings, which foreign investors are not allowed to buy unless they have temporary or permanent residency. Although we are seeing more first-home buyers purchasing new apartments because of government grants that only pay for new properties, the bulk are still buying established homes.

It would be fair to say that Australian buyers of higher end new apartments are increasingly competing with foreign buyers. But the positive side is the great boost to our construction industry, creating more jobs at a time when the **mining** industry is slowing down and skilled labourers are looking for alternative employment.

On balance, I'd say there are more positives to negatives in the rising foreign investment in Australian real estate. At McGrath, our **China** Desk service launched in February has proven very popular and enabled us to reach more Asian buyers and provide a better level of service to foreign clients. **China** was the No 1 foreign buyer in FY13 and I'**m** expecting the same for FY14.

The parliamentary inquiry has received 43 submissions so far – many from private individuals. The committee is due to report on October 10. Stay tuned.

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