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HD **Housing inquiry's hot potato**

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Timing is always key in **property** – as in politics. And that will only increase the public's interest in the report of a parliamentary inquiry into foreign investment in **residential** real **estate**.

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While the committee's recommendations will be carefully phrased to apply to all foreign investment, it is clearly the level of **Chinese** investment that underpins the politics – as well as some of the recent price rises.

And it's now clear that the committee's recommendations will be extremely politically sensitive – particularly the suggestion the federal government should be able to retrieve "windfall gains" from **property** acquired in contravention of the rules and now worth considerably more.

Not that **China** is the driving force of the Australian **property** price phenomenon. But for people worried about the effect of increasingly unaffordable housing, **Chinese property purchases** make a highly visible target.

Real **estate** agents say the fall in the dollar is already increasing Australia's appeal to **Chinese** investors despite the high prices. It is considered a safer bet than many other possible investments and an effective way of getting money out of **China** and diversifying risk.Convenient delay

So it's very politically convenient that the report from the House of Representatives economics committee, originally due last month, has been delayed until no later than November 28. This delay puts it neatly past the visit to Australia of Xi Jinping and the focus on the importance of a free trade agreement with **China**.

Recommendations on enforcing the strict rules on foreign (read **Chinese**) investment in housing – and stiffening the penalties – are likely to play well domestically. Yet a critical examination of the level of **Chinese** investment in Australian real **estate**, no matter how diplomatically phrased, will be another delicate moment in bilateral relations with Australia's most important trading partner.

Liberal MP Kelly O'Dwyer, as committee chair, has already made it clear that she doesn't think the Foreign Investment Review **Board** has been doing its job adequately. That job is supposed to mean that foreigners can only invest off the plan – or in new housing construction – as another lever to increase the supply rather than just he prices. Temporary residents, including students and those on work visas such as the 457 four years skilled visas, can **buy** one existing home but must sell within three months of leaving Australia.

In 2008, the Rudd government lifted the requirement for screening of such **purchases** by FIRB but reinstated it two years later. It was too little, too late. These rules are a classic case of being honoured in the breach. The committee has finally extracted figures showing only 17 FIRB investigations and not one investor prosecuted for illegally acquiring **property** since 2006.

It doesn't help that it's almost impossible to find information on what is happening. The committee is likely to recommend a national register of all **property purchases** by foreign investors, in co-ordination with the states. It will also demand much stricter checking and enforcement by FIRB, including cross checking with the Department of Immigration, for example, to see who has left the country. At the moment, even this is not done. And those who apply for FIRB approval will have to pay a fee that will be returned to an under-resourced FIRB to help pay for its increased activities. Increase in penalties

But the real sting will come from the recommendations on a new system of fines and penalties. O'Dwyer told a recent forum that the current fine of $85,000 is considered as merely a cost of doing business, particularly given it is so rarely applied. The committee wants to see it more closely related to the cost of the **property**.

The committee is unlikely to recommend an increase in stamp duties, such as the 15 per cent increase recently applied to foreign investors in Singapore and **Hong Kong**.

But a far bigger issue will be the recommendation Australia is owed "windfall gains" from buying illegally. For example, a temporary resident might have bought more than one existing **property** or not **sold** after leaving. Any profits on properties now forcibly divested should belong to the government, according to the committee. Given the price rises, these would be substantial, but the committee argues this cannot be considered retrospective as the rules were in place at the time.

Actually getting hold of the money would be difficult. Just imagine the complaints and legal complexities. Nor will it change the 1.5 per cent rise in national housing prices for the September quarter, jet propelled by the 2.7 per cent jump in Sydney and adding up to a 15 per cent increase in Sydney prices over the past 12 months. State variations still don't obscure the startling increase in Australian house prices overall, making this a highly contentious issue. Existing home owners may be thrilled at the "wealth effect" but worried about how their kids can ever afford to **buy**. The housing construction industry is booming, when little else is boosting growth. But all those **apartment** buildings are compounding concerns about inadequate infrastructure and overcrowded roads. International analysts will continue to fret about overvalued Australian house prices and maybe – one day – they might even turn out be right. That would be even more alarming for the economy.

Right now, though, the committee's recommendations will be both popular with the public and another political hand grenade for the Abbott government to defuse.

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