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UDIA Submission to the Inquiry into Foreign Investment in Residential Real Estate

The Urban Development Institute of Australia (UDIA) welcomes the opportunity to provide this submission to the Inquiry into Foreign Investment in Residential Real Estate. UDIA is the peak body representing the interests of the development industry around Australia, acting on behalf of over four thousand members across the country, from a wide variety of fields and professions.

Foreign investment has long been a key driver of economic growth and opportunity in Australia, creating jobs and enhancing productivity. In particular, the additional demand for dwellings created by foreign investors generates billions of dollars of economic activity and jobs in the construction and development industries, and also adds to Australia's dwelling stock.

Recent concerns around Australia's foreign investment regime have focused on anecdotal claims that foreign investors may be leaving their homes vacant, and the impact that foreign investment may be having on the price of housing. Whilst it is unclear to what extent these two factors are impacting on the Australian housing market, UDIA believes that the solution lies in removing existing supply side barriers to new land and housing, rather than further restricting foreign investment into residential dwellings.

The Benefits of Foreign investment into Residential Property

UDIA remains fundamentally of the opinion that foreign investment into residential property should continue to be supported due to its role in stimulating Australia's housing and construction industries.

Property development is the fourth largest industry in Australia in terms of its contribution to GDP, and together with flow on industries employs more than 1.7 million Australians, and contributes in excess of \$29 billion dollars in state and federal taxes. Property Insights estimates that an additional \$1 million invested in the property development industry generates 11.8 full-time equivalent jobs

and \$146,474 in state and federal taxes. Figures from the Foreign Investment Review Board (FIRB) show that foreigners invested an additional \$10.8 billion into vacant land, new dwellings and redevelopment across 2012-13 alone.

Foreign investment into new residential property also has the desirable outcome of adding to Australia's dwelling stock and increasing the number of properties in the private rental pool. This is a particularly valuable outcome in the context of Australia's ongoing housing affordability problems and underlying housing shortage, which the National Housing Supply Council (NHSC) projected would grow to 370,000 dwellings by 2016.

There has been some concern that some foreign buyers are leaving properties vacant once purchased, which would prevent them from entering the rental pool. It's unclear what the extent of this problem is, however it is likely to be a minority of properties, with most being effectively utilised and occupied.

The Importance of Removing Supply Side Barriers to New Housing Construction

It's important to remember that the efficacy of foreign investment as a mechanism to increase the size of Australia's housing stock ultimately depends on the ability of developers to supply the market with new homes.

It is still unfortunately the case that the supply of new housing in Australia is heavily and unnecessarily constrained by governments through high taxes and charges on new housing, inadequate investment in urban infrastructure, poor planning, inefficient zoning and approvals systems, and regulatory delays and burden. As a result, any increase in demand for housing (including demand from foreign investors) has the potential to place upward pressure on prices.

Whilst it is unclear from the available data what impact (if any) foreign investors actually have on prices, the impact of supply side constraints on new housing has been identified on a number of occasions by numerous Parliamentary Inquiries, the Productivity Commission, and COAG among others as the core obstacle to improving housing supply and affordability in Australia.

UDIA believes that the underlying cause of Australia's housing supply and affordability problems continues to be supply side barriers to new land and housing supply. The solution is not to further restrict foreign investment, but for all levels of government to remove supply side constraints on housing to ensure that foreign investor demand is able to be most effectively transformed in to more homes for Australians.

Can the Administration of Foreign Investment Policy be Improved?

A considerable problem with the administration of Australia's foreign investment policy is the collection and reporting of data. At the moment the FIRB only provides limited publicly available

data in their annual report to Treasury, and the data that is provided lacks key details such as residential investment by country of origin and investment by state or region. This, combined with the infrequency with which data is published makes it very difficult to build an accurate picture of the foreign investment landscape, and means that industry, the media, and the public must rely predominantly on anecdotal evidence and conjecture.

More detailed, regular and public reporting of foreign investment data would provide much needed certainty in the public debate around foreign investment, and UDIA believes this should be pursued to improve transparency and confidence in Australia's foreign investment policy.

Conclusion

UDIA thanks the Standing Committee on Economics for the opportunity to provide this submission to the Inquiry into foreign investment in residential real estate. UDIA would welcome the opportunity to discuss any aspect of this submission in greater detail. For further information, please contact UDIA National on 02 6230 0255 or at udia@udia.com.au.

References

-Property Insights, *Property Development Industry Economic Impact Study*, 2010

-Foreign Investment Review Board, *Annual Report 2012-13*,

<<http://www.firb.gov.au/content/Publications/AnnualReports/2012-2013/downloads/FIRB-Annual-Report-2012-13.pdf>>