

An update on Chinese investment in Australian residential real estate

Chinese investors remain prominent relative to those from other countries but marginal compared with local buyers. More than a year of heightened compliance activity by the Australian Taxation Office (ATO) has yielded little evidence that foreign investment rules have been widely flouted.

1. Foreign buyers (not just those from China) currently account for 10.4 percent and 7.2 percent of demand for new and established Australian residential real estate, respectively.¹

- The share of foreign buyers in both new and established markets is now at its lowest level since 2013.
- Since 2013 the share of foreign buyers in new and established markets has never been higher than 16.8 percent (2014Q3) and 9.5 percent (2014Q1), respectively.
- In New South Wales foreign buyers currently account for 11.8 percent and 7.5 percent of demand for new and established residential real estate, respectively.

2. Foreign investment in residential real estate requires approval by the Foreign Investment Review Board (FIRB). In 2014-15, the value of approved investment by Chinese investors accounted for 25.1 percent of total approved foreign investment in residential and commercial real estate.² Over the past five years, China has accounted for a 16.1 percent share. This compares with 9.0 percent from the US.

3. The annual value of residential real estate sales in Australia is around \$260 billion.³ The value of approved Chinese investment in residential AND commercial real estate in 2014-15 was \$24.3 billion.⁴ The value of Chinese investment in commercial real estate in 2015 was

\$6.9 billion.⁵

4. In May 2015 the Australian government transferred the responsibility for ensuring compliance with foreign investment rules to the ATO. A team of around 50 investigators has been deployed on the task.⁶

- Each year in Australia there are around 300,000 metropolitan property sales.⁷
- As of September 19 2016, 2200 matters have been referred to the ATO for investigation and approximately 400 cases remain under active investigation.⁸ This is down from over 800 cases in January 2016.⁹
- As of June 30 2016, 270 breaches of foreign investment rules had been found. In 56 percent of cases retrospective approval was given because buyers would have been approved had they applied to FIRB before purchasing.¹⁰
- Between 2013 and September 19 2016, there were 46 forced divestments worth \$92 million. Of divestments where buyer nationalities have been revealed, these include China, Hong Kong, Germany, the UK, Malaysia and Canada.¹¹

5. Education is the motivation behind more than 60 percent of Chinese property inquiries in Sydney and Melbourne.¹²

This fact sheet was prepared by Professor James Laurenceson, Deputy Director, Australia-China Relations Institute, University of Technology Sydney.

¹ National Australia Bank, July 15 2016, http://news.nab.com.au/news_room_posts/nab-quarterly-australian-residential-property-survey-q2-2016/

² Foreign Investment Review Board (FIRB), <https://firb.gov.au/files/2016/03/FIRB-AR-2014-15.pdf>

³ CoreLogic, September 5 2016, <http://www.corelogic.com.au/resources/pdf/indices/chart-pack/2016-09-05--Property-and-Economic-Overview.pdf>

⁴ Foreign Investment Review Board (FIRB), <https://firb.gov.au/files/2016/03/FIRB-AR-2014-15.pdf>

⁵ KPMG and Sydney University April 2016, <http://demystifyingchina.com.au/reports/demystifying-chinese-investment-in-australia-april-2016.pdf>

⁶ Australian Broadcasting Commission (ABC), August 18 2016, <http://www.abc.net.au/news/2016-08-18/tax-office-foreign-real-estate-buyer-enforcement/7751596>

⁷ CoreLogic, September 5 2016, <http://www.corelogic.com.au/resources/pdf/indices/chart-pack/2016-09-05--Property-and-Economic-Overview.pdf>

⁸ Scott Morrison, September 19 2016, <http://sim.ministers.treasury.gov.au/media-release/101-2016/>

⁹ Scott Morrison, January 18 2016, <http://sim.ministers.treasury.gov.au/media-release/032-2015/>

¹⁰ Australian Broadcasting Commission (ABC), August 18 2016, <http://www.abc.net.au/news/2016-08-18/tax-office-foreign-real-estate-buyer-enforcement/7751596>

¹¹ Scott Morrison, September 19 2016, <http://sim.ministers.treasury.gov.au/media-release/101-2016/>

¹² Maggie Lu, August 8 2016, <http://www.theaustralian.com.au/business/property/chinese-home-buyers-caught-in-a-trap/news-story/7fa5bc9a1aa2b57128753ca96670abd0>