

An update on PRC investment in Australian residential real estate



Investment from the People's Republic of China (PRC) in the Australian residential real estate market overall largely aligns with Australia's foreign investment policy objectives. PRC investment in the residential real estate market has declined since 2016-17. The evidence available does not suggest systemic wilful non-compliance with residential real estate rules overseen by the Foreign Investment Review Board (FIRB).

1. Annual turnover in Australian residential real estate sales reached a value of \$286.4 billion in 2018, with 442,067 transactions completed.¹
2. All foreign investment in residential real estate requires FIRB approval. The rules overseen by the FIRB channel such investment into new dwellings rather than established dwellings,² thereby increasing housing availability and affordability.³ In 2017-18, 84 percent of FIRB-granted approvals for foreign investment were in new dwellings, vacant land, or other residential property for development.⁴
3. In 2017-18, the FIRB approved \$12.5 billion of foreign investment in residential real estate, equating to four percent of total residential real estate sales. This represents a 58 percent decline compared to 2016-17.
4. The share of sales to foreign buyers in both the new and established residential property markets reached a seven-year low in 2018Q3, with eight percent and four percent market share respectively.⁵
5. The combined value of approved PRC investment in both commercial and residential real estate comprised 25 percent of total foreign investment

1 CoreLogic, 'Monthly housing and economic chart pack', February 2019 <<https://www.corelogic.com.au/reports/chart-pack>>.

2 Note: FIRB grants exemptions in certain cases. Please refer to the FIRB website for further details <<http://firb.gov.au/real-estate/new/>>.

3 Australian National Audit Office, 'Compliance with foreign investment obligations for residential real estate', June 19 2018 <<https://www.anao.gov.au/work/performance-audit/compliance-foreign-investment-obligations-residential-real-estate>>.

4 Foreign Investment Review Board, Annual Report 2017-18, Chapter 3: Applications Data, February 15 2019 <<https://cdn.tspace.gov.au/uploads/sites/79/2019/02/FIRB-2017-18-Annual-Report-final-05-chap3.pdf>>.

5 National Australia Bank, 'NAB quarterly Australian residential property survey Q3 2018', October 9 2018 <<https://business.nab.com.au/nab-quarterly-australian-residential-property-survey-q3-2018-31621/>>.

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in commercial and residential real estate.⁶ Its value was \$12.7 billion, a 17 percent reduction from 2016-17. This compares with foreign investment from:

- Singapore: \$7.8 billion (up 47 percent since 2016-17), accounting for 16 percent of the total
- US: \$5.8 billion (down nine percent), accounting for 12 percent of the total
- UK: \$2.9 billion (up 37 percent), accounting for six percent of the total

6. The Australian Taxation Office (ATO) has been responsible for managing compliance with foreign investor obligations since 2015.

- During 2017-18, the ATO identified 1710 cases for investigation with 600 properties found to be in breach of obligations. Of these breaches, 292 (49 percent) were granted retrospective approval, and 131 (22 percent) were required to divest the property.⁷
- A total of 316 properties were divested from 2015 to October 2018, with investors coming from countries including the PRC, the UK, Malaysia, Singapore, Indonesia, India, the US, Hong Kong, Italy and Germany.⁸
- Compliance cases are identified for investigation using a range of sources, including community information, data matching, self-disclosure, and other referrals. The FIRB reported that “in most cases, the owners of the properties reported by community members were found to be Australian citizens or permanent residents and were therefore exempt from the [Foreign Acquisitions and Takeovers] Act.”
- The Australian National Audit Office (ANAO) conducted an audit of ATO compliance management processes in 2017-18, finding that ATO investigation processes were “largely

effective,” with recommendations for “minor enhancements.”⁹

6 Foreign Investment Review Board, Annual Report 2017-18, Chapter 4: Compliance, February 15 2019 <<https://cdn.tspace.gov.au/uploads/sites/79/2019/02/FIRB-2017-18-Annual-Report-final-05-chap3.pdf>>.

7 Foreign Investment Review Board, Annual Report 2017-18, Chapter 4: Compliance, February 15 2019 <<https://cdn.tspace.gov.au/uploads/sites/79/2019/02/FIRB-2017-18-Annual-Report-final-06-chap4.pdf>>.

8 The Hon. Josh Frydenberg MP, ‘Foreign nationals forced to sell \$380 million worth of illegally acquired real estate’, media release, December 10 2018 <<https://joshfrydenberg.com.au/latest-news/foreign-nationals-forced-to-sell-380-million-worth-of-illegally-acquired-real-estate/>>.

9 Australian National Audit Office, ‘Compliance with foreign investment obligations for residential real estate’, June 19 2018 <<https://www.anao.gov.au/work/performance-audit/compliance-foreign-investment-obligations-residential-real-estate>>.