

FOREIGN REAL ESTATE INVESTMENT

Billie O’Heare-Young

The value of foreign investment approvals for Australian residential real estate surged 75% last financial year to a record \$61 billion and could account for around a quarter of new developments.

Data from the Foreign Investment Review Board states that there were 36,841 applications by non-citizens who were also not permanent Australian residents to buy residential properties.

This represents a 60% increase on the previous year, while the value of properties covered by the applications increased 75% to \$60.75 billion.

Approvals to buy Australian residential real estate have more than tripled since 2012-13.

The good news for the real estate sector and housing supply was that almost half the value of foreign investment approved was directed at the construction of new developments.

“China now dominates foreign real estate investment in Australia.”

Economists at UBS said this represented 81 per cent of the total value of residential building approvals last financial year.

However, they also noted that their own research had suggested just a one-in-three conversion rate between FIRB developer investment approvals and actual investment. This suggests that around a quarter of all new residential developments in Australia last financial year were funded by offshore investors.

With \$28.7 billion worth of investment spread across just 152 developer applications, the data strongly suggest that most were concentrated in the inner-city high-rise markets, particularly in capital cities of Melbourne, Sydney and Brisbane. Foreign buyers also accounted for 20,551 approvals for individuals to buy newly built properties worth a total of \$14.4 billion - almost double the previous year's figures.

Foreign purchasers bought 9,236 established homes last financial year worth a total of \$10.1 billion, although only those living in Australia are eligible to buy an existing property, and only to live in it themselves. Overseas investors also received approvals to invest a further \$36.2 billion in 506 commercial properties. The UBS economists said that makes Australia quite dependent on foreign money for the health of its real estate market.

"Looking ahead, absent China completely shutting its capital account, the outlook remains more of a moderate downturn, rather than a collapse, albeit the risks are to the downside after such a large spike in recent years," they noted in their analysis report.

These figures from FIRB cover the last full financial year before a tightening of foreign investment rules surrounding residential real estate, and an increase in penalties for breaching the law.

In its annual report, FIRB noted that no proposals were rejected in 2014-15, and only one divestment order was made for a Sydney house.

There was one clear source for most of last year's overseas investment in Australian real estate, which was China.

The vast bulk of individual purchases of real estate were by Chinese nationals, who accounted for about two-thirds of the total number of FIRB applications across all categories.

Mainland Chinese investors also accounted for around 36 per cent of the value of investment in real estate (commercial and residential combined), more than triple the value of the next biggest investor in that sector, the United States.

These figures coincide with a new report from KPMG and Sydney University showing that Chinese investment in Australia surged by almost 60 per cent last year, with nearly half that new investment coming from the commercial property sector. The report specifically excluded an examination of Chinese residential real estate investment. It found agribusiness and infrastructure projects were also popular with Chinese investors.

The co-author of the report, Hans Hendrichke, told Radio National that Chinese investors have been pouring money into Australian office buildings, hotels and other tourism facilities. "It's largely a result of growth in commercial real estate," he said. "That has taken over and essentially made up for the decline that we saw over the last two years in mining investment from China."
