Foreign Investors Soar (Away)

One of the lessons from looking at previous down-cycles in building activity is that Government policy changes have triggered some of the most dramatic - and often undesirable - changes in market conditions.

The sharpest downturn in history was a consequence of the introduction of the GST in 2001. Equally, First-home Buyer concessions have been effective at stimulating demand.

Not all FIRB approvals for foreign real estate investment materialise but the trend in the chart below reveals that foreign investors have been increasingly significant contributors to rising demand for housing in east-coast metropolitan areas.

**FIRB Approvals for Residential investment.**

These investors are also predominantly from China and they are investing in new residential dwellings.

**FIRB Approvals for Residential investment**
This concentration has led policy makers to respond to public concerns with a number of simultaneous interventions, including:

1. NSW imposed a punitive 8 per cent stamp duty surcharge on foreign buyers from 1 July 2017 (See the chart Below);
2. Victoria introduced a punitive 4 per cent stamp duty surcharge on dwelling purchases by foreign investors from 1 July 2015;
3. Queensland has charged foreign investors a punitive 3 per cent additional stamp duty charge since 1 October 2016;
4. South Australia will impose a punitive 4 per cent charge from 1 January 2018.
5. The federal regulatory agency APRA tightened lending to investors from April 2017 by limiting the availability of interest only loans;
6. The Australian Government has also introduced significant application fees for foreign investors and limited foreign purchases to 50 per cent of a new project
7. The Chinese Government has also restricted the outflow of investment funds from China.

Comparison of Transaction Taxes for Investors in Dwelling Units - July 2017

All of these measures reduce the attractiveness of the Australian housing market as a destination for foreign investors’ capital. In most cases, this is the primary goal of the policy change.

Foreign investors, like all investors, are prepared to manage the risk of changes in market conditions. But changes to government policy that affect returns create uncertainty and reduce confidence in the market. For investors with mobile capital, such as international investors in the Australian housing market, they can withdraw their funds very quickly.

These investors have contributed to activity and employment in metropolitan areas and they have also been important contributors to the supply of new housing stock easing pressure on rental markets.

Governments of all jurisdictions should proceed with caution when imposing new punitive measures on this increasingly important and highly mobile segment of the market.