ACIL ALLEN CONSULTING

REAL CAPITAL ANALYTICS

REPORT TO
THE PROPERTY COUNCIL OF AUSTRALIA

22 MAY 2017

BENEFITS OF FOREIGN INVESTMENT IN REAL ESTATE

ACIL ALLEN CONSULTING PTY LTD
ABN 68 102 652 148

LEVEL FIFTEEN
127 CREEK STREET
BRISBANE QLD 4000
AUSTRALIA
T+61 7 3009 8700
F+61 7 3009 8799

LEVEL ONE
15 LONDON CIRCUIT
CANBERRA ACT 2600
AUSTRALIA
T+61 2 6103 8200
F+61 2 6103 8233

LEVEL NINE
60 COLLINS STREET
MELBOURNE VIC 3000
AUSTRALIA
T+61 3 8650 6000
F+61 3 9654 6363

LEVEL ONE
50 PITT STREET
SYDNEY NSW 2000
AUSTRALIA
T+61 2 8272 5100
F+61 2 9247 2455

LEVEL TWELVE, BGC CENTRE
28 THE ESPLANADE
PERTH WA 6000
AUSTRALIA
T+61 8 9449 9600
F+61 8 9322 3955

161 WAKEFIELD STREET
ADELAIDE SA 5000
AUSTRALIA
T +61 8 8122 4965

ACILALLEN.COM.AU

SUGGESTED CITATION FOR THIS REPORT

ACIL ALLEN CONSULTING 2017, *BENEFITS OF FOREIGN INVESTMENT IN AUSTRALIAN REAL ESTATE*, REPORT TO THE PROPERTY COUNCIL OF AUSTRALIA, MAY.

Contents

Contents

EXECUTIVE SUMMARY

Foreign investment is vital to the strength of the Australian economy. As a nation, we depend on international capital to finance the pool of investment that underpins Australia's economic growth.

Over the past 25 years, the gap between Australia's domestic savings and its investment needs has been around 4 per cent of GDP. International capital has made up the difference, filling the gap between what Australia saves and invests every year and allowing Australia to have higher rates of economic growth than would otherwise be possible.

However, the value and significance of foreign investment, particularly in real estate, are poorly understood. There has been limited analysis of the role of foreign investment across the whole property industry, and this type of investment is often viewed solely through the lens of the residential property market.

Against this background, the Property Council of Australia (Property Council) commissioned ACIL Allen Consulting (ACIL Allen) to undertake this research, which aims to:

— produce a detailed snapshot of the quantum, type, origin and destination of foreign investment in Australian real estate

— assess the contribution of foreign investment in real estate to the Australian economy and illustrate the potential implications of possible policy interventions or changing investment conditions that could restrict foreign investment in real estate

— discuss some of the arguments and misconceptions surrounding foreign investment in real estate

— compare Australia's treatment of foreign investment to other major economies.

This evidence-based approach can help inform policies on foreign investment in real estate and provide clarity to the public debate about the type and level of foreign investment and the importance of continuing to attract a steady and sustainable flow of international capital to Australia.

The report's headline findings are outlined below.

1. Over the past 25 years, the gap between Australia's domestic savings and its investment needs has been around 4 per cent of GDP. In 2015-16 alone, this represented a shortfall of $67 billion.
2. Foreign investment in real estate contributes to Australia's economic prosperity. Without it, Australia would be worse off.
   - A 20 per cent reduction in foreign investment for development of new commercial buildings would:
     - reduce Australia's real GDP by a cumulative total of $21.4 billion over 10 years

    - reduce annual real GDP by 0.13 per cent or $3.2 billion once the impact had wound through the economy.[1] This is equivalent to almost the total gross value added (GVA) of Australia's coal-fired electricity generation industry ($3.4 billion).
  - A 20 per cent reduction in foreign investment for development of new residential dwellings would:
    - reduce Australia's economic output (i.e. real GDP) by a cumulative total of $14.8 billion over 10 years
    - reduce annual real GDP by 0.09 per cent or $2.3 billion once the impact had wound through the economy. This is equivalent to more than three times the GVA of Australia's renewable electricity generation industry ($706 million).
3. Foreign investment makes an important contribution to government tax revenues.
   - A 20 per cent reduction in foreign investment for development of new commercial buildings would result in a cumulative loss of $8 billion in Commonwealth Government revenues and $2 billion in state revenues over the 10 year period from 2017-18 to 2026-27.
   - A 20 per cent reduction in foreign investment for development of new residential dwellings would result in a cumulative loss of $5 billion in Commonwealth Government revenues and $1 billion in state revenues over the 10 year period from 2017-18 to 2026-27.
4. Foreign investors provide a significant share of the funds directed towards commercial real estate in Australia and are an essential driving force for new-builds. Indeed, foreign investors currently directly fund around $20 billion of Australia's commercial real estate.
5. In 2015-16, foreign investors received approval to fund up to $7 billion in residential development.
6. While the actual number and value of dwellings purchased by foreign persons in Australia is unknown, the number of approvals to purchase residential properties are estimated to be around 9 per cent of the total residential properties sold in Australia (and around 13.5 per cent of the value of total dwelling turnover). A significant portion of this relates to pre-sales of off-the-plan developments which moves projects from conception to completion and accelerates delivery of new supply into the market. The definition of foreign person includes skilled workers, students and other foreign nationals who are temporarily living in Australia.
7. Foreign investment adds between $80 and $122 to the price of a dwelling per quarter in Sydney and Melbourne, respectively (Australian Treasury 2016b). Compared to an average quarterly price increase of $12,800, the amount that foreign buyers add to prices is minor.
8. Australia's foreign investment framework for real estate is more stringent and has higher levels of scrutiny than other countries with which Australia competes in the market for global capital. This is especially prevalent with regards to residential investment.
9. China is the largest source of foreign investment approvals in real estate (including commercial and residential real estate), while the major source of investment in commercial real estate is the United States.
10. Foreign investment in real estate is important because it increases the amount of capital available for investment in the construction of new dwellings and commercial buildings. Australia benefits from this investment because it:
    - helps fund investments and projects that Australia could not support purely with domestic savings
    - increases the demand for, and supply of, housing stock. This produces benefits for the construction industry, employment and economic growth
    - increases the number of providers of goods and services which encourages competition and boosts housing supply
    - enables domestic firms to diversify their portfolios by purchasing or developing buildings in other regions or sectors
    - contributes to increased capital values through strengthened demand for commercial real estate (which provides further support to the financial position of domestic developers, REITs and investors

[1] Approximately after 10 years (i.e. from 2026-27 onwards).

- increases innovation through the transfer of skills and experience from overseas markets to Australia
- enables Australian commercial property and development companies to utilise their skills and resources across more assets
- increases government revenues in the form of stamp duties and other taxes from the overall higher economic growth that flows from the additional investment. This increases funds available to support essential Australian services.

1 INTRODUCTION

1.1 This study

Foreign investment is a vital contributor to a small, open economy like Australia. Increases in the quantum of foreign investment have positive flow on effects on economic activity, employment and wages. Nonetheless, the benefits and implications of foreign investment, particularly in real estate, are not always fully understood.

One of the hurdles in generating a more informed discussion on foreign investment lies in the lack of a systematic approach to data collection. This is especially true for real estate investment, where several public agencies and private entities report data with different periodicity, aggregation, breadth and depth. The absence of a clear picture on the current situation of foreign investment in Australian real estate (as well as its related impacts) may well be behind many of the public concerns around the matter.

Against this background, the Property Council of Australia (Property Council) has commissioned ACIL Allen Consulting (ACIL Allen) to undertake this research. The terms of reference for the study are to:

— produce a detailed snapshot of the quantum, type, origin and destination of foreign investment in Australian real estate
— assess the contribution of foreign investment in real estate to the Australian economy
— discuss some of the arguments and misconceptions surrounding foreign investment in real estate
— review the real estate investment frameworks of other major economies and compare these to the Australian arrangements.

1.2 Defining a foreign person

Foreigners are defined differently in different contexts. For instance, a foreign person for the purposes of stamp duty surcharges across New South Wales (NSW), Victoria and Queensland is defined differently in each of these states, and these definitions are also different to that used by the Foreign Investment Review Board (FIRB) to determine who requires a foreign investment approval.

This report adopts FIRB's definition of a foreign person, which is any of the following (FIRB 2015):

— an individual that is not ordinarily resident in Australia (this includes foreign nationals who are living in Australia on a temporary visa, e.g. business and skilled workers and students. However, it does not include those with permanent residency status)
— a foreign government or foreign government investor

— a corporation, trustee of a trust or general partner of a limited partnership where an individual not ordinarily resident in Australia, foreign corporation or foreign government holds a substantial interest of at least 20 per cent
— a corporation, trustee of a trust or general partner of a limited partnership in which two or more foreign persons hold an aggregate substantial interest of at least 40 per cent.

For the purposes of the above definition, a 'foreign government investor' is 'a foreign government or separate government entity, a corporation or trustee of a trust, or a general partner of a limited partnership in which:

— a foreign government or separate government entity holds a substantial interest of at least 20 per cent; or
— foreign governments or separate government entities of more than one foreign country (or parts of more than one foreign country) hold an aggregate substantial interest of at least 40 per cent.' (FIRB 2016a, p.30).

Notably, under certain circumstances, certain persons (or certain acquisitions) who fall within FIRB's definition of foreigners are exempt from the requirement to apply for and receive foreign investment approval before acquiring assets in Australia (e.g. New Zealand citizens are not required to obtain approval before purchasing residential real estate in Australia). These exemptions are discussed in more detail in Chapter 3.

1.3 Defining foreign investment in real estate

For the purposes of this report, foreign investment in real estate includes investment in:

— residential real estate — including foreign persons acquiring new and existing dwellings and foreign persons investing in the development of new dwellings (either through foreign or domestic owned development companies)
— commercial real estate — which covers all other real estate investment, including investment in offices, retail, industrial facilities, senior housing, student housing and commercial developments.

1.4 Report structure

The remainder of this report is structured as follows.

— Chapter 2 discusses the importance of foreign investment for Australia, particularly in real estate.
— Chapter 3 outlines Australia's policy on foreign investment in real estate.
— Chapter 4 provides a snapshot of the quantum, type, origin and destination of foreign investment in Australia, particularly in real estate (including both residential and commercial).
— Chapter 5 assesses the economic contribution of foreign investment in real estate to the Australian economy.
— Chapter 6 discusses common arguments and misconceptions surrounding foreign investment in Australian real estate.
— Chapter 7 reviews the real estate investment frameworks of other major economies and compare these to the Australian arrangements.
— Chapter 8 outlines the conclusions of this study.

2 WHY DOES FOREIGN INVESTMENT MATTER?

This chapter briefly discusses the importance of foreign investment for Australia overall, and in particular, the importance of foreign investment in Australian real estate.

2.1 What is foreign investment?

As defined by the Australian Department of Foreign Affairs and Trade (DFAT 2017), 'Foreign investment occurs when an individual, business or investment vehicle (such as a superannuation or pension fund) from outside Australia decides to establish a new business in Australia or purchases property or shares in an Australian-owned business.'

Generally, foreign persons or companies invest in Australia through two main channels, portfolio investment and foreign direct investment.

— ***Portfolio investment*** refers to 'the purchase of Australian securities (such as stock or bonds) or equity and debt transactions which do not offer the investor any control over the operation of the enterprise' (DFAT 2017). Examples of this type of investment include the purchase of securities in Australian companies and investment vehicles (including Real Estate Investment Trusts, commonly referred to as REITs) and investment in government bonds by foreign superannuation or pension funds.

— ***Foreign direct investment*** occurs when 'an individual or entity from outside Australia establishes a new business or acquires 10 per cent or more of an Australian enterprise, and so has some control over its operations' (DFAT 2017). Examples of foreign direct investment include the establishment of Australian branches of multinational companies or joint ventures between Australian and foreign companies.

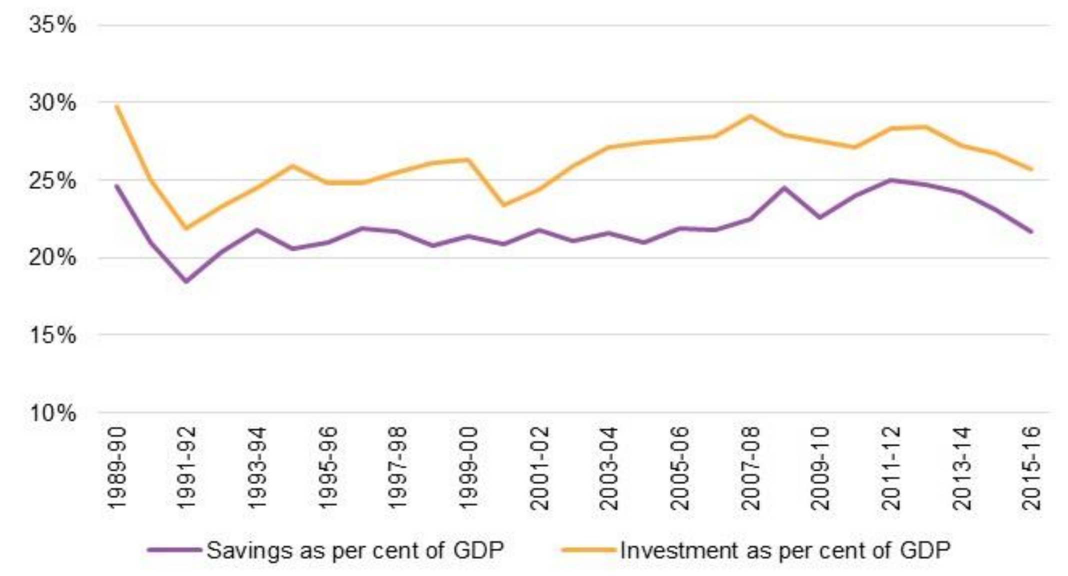
2.2 The benefits of foreign investment

The benefits that foreign investment brings to Australia are well established. Australia's investment requirements have historically been higher than can be financed through domestic savings (see Figure 2.1). Over the past 25 years, the gap between national investment and saving has been around 4 per cent of GDP. In 2015-16 alone, this represented a shortfall of $67 billion. International capital makes up the difference, filling the gap between what Australia saves and invests every year and allowing Australia to have higher rates of economic growth than would otherwise be possible.

Indeed, as noted by DFAT (2017), 'foreign investment helps Australia reach its economic potential by providing capital to finance new industries and enhance existing industries, boosting infrastructure, productivity, and employment opportunities in the process'.

Foreign investment also provides other benefits beyond the injection of new capital. It encourages competition amongst industries, increases innovation by bringing new technologies, services and skills to Australia and provides access to new markets and export opportunities. In addition, the higher growth supported by foreign investment pays dividends for all Australians by increasing tax revenues and hence increasing the funds available to spend on hospitals, schools, roads and other essential services.

FIGURE 2.1 AUSTRALIA'S NATIONAL INVESTMENT AND SAVING (PER CENT OF GDP)



Note: Gross savings is national net savings at current prices plus consumption of fixed capital at current prices. Gross investment is sum of all sectors gross fixed capital formation, changes in inventories and statistical discrepancy in current prices.

SOURCE: ABS (2016), 5204.0 AUSTRALIAN SYSTEM OF NATIONAL ACCOUNTS.

2.3 Benefits of foreign investment in commercial and residential real estate

Foreign investment increases the amount of capital available for investment in the construction of new dwellings and commercial buildings. This additional activity in the construction sector produces benefits for the construction industry, other sectors that provide inputs and services to the construction industry and overall employment and economic growth.

In addition, foreign investment in the sector can help introduce new technology and skills to the Australian market and increase competition. This is particularly likely in commercial developments and high density residential developments.

2.3.1 Benefits of foreign investment in commercial real estate

Foreign investment in commercial real estate has a number of key benefits. Indeed, as noted by Lane, Sinclair and Orsmond (2014), foreign investment in commercial real estate:

— helps support construction activity, both by foreigners directly investing in new construction and indirectly by supporting the financial position of domestic developers and enabling them to undertake additional construction activity

— enables domestic firms to diversify their portfolios by purchasing or developing buildings in other regions or sectors

— enables Australian commercial property and development companies to utilise their skills and resources across more assets

— contributes to increased capital values through strengthened demand for commercial real estate (which provides further support to the financial position of domestic developers, REITs and investors)

— enables domestic firms to 'limit their use of bank funding, which is useful given the risks commercial property can pose to financial institutions during downturns' (Ellis and Naughtin 2010 cited in Lane, Sinclair and Orsmond 2014 p. 26)
— may reduce the volatility of Australian property values to the extent that domestic business cycles are not perfectly correlated with those in other economies.

Foreign investment also allows Australian REITs to leverage their expertise across a larger asset base by entering into joint ventures with international players and diversifying their capital funding.

2.3.2 Benefits of foreign investment in residential real estate

Foreign investment in residential real estate increases the amount of capital available for construction of new dwellings. As submitted by Treasury to the Inquiry into Foreign Investment in Residential Real Estate, foreign investment in residential real estate (Australian Treasury 2014):

— increases the demand for, and supply of, housing stock
— the increased demand for housing stock encourages higher levels of housing supply (albeit with a lag), which produces benefits for the construction industry, employment and economic growth
— increases government revenues in the form of stamp duties and other taxes, and from the overall higher economic growth that flows from the additional investment.

Foreign investment in residential real estate also helps build new supply and can be an important factor in maintaining business confidence and giving developers the security to embark on new projects. This investment also contributes significantly to the economy, creating employment and additional economic activity in the construction industry and related upstream and downstream sectors and providing impetus for the development of related social infrastructure. To the extent that materials used in construction are sourced domestically, an increase in building activity supports local suppliers of building materials whilst boosting demand for household and commercial durable goods.

3 AUSTRALIA'S POLICY ON FOREIGN INVESTMENT IN REAL ESTATE

This chapter outlines Australia's policy on foreign investment in real estate.

3.1 Australia's foreign investment framework

The Foreign Investment Review Board (FIRB) reviews foreign investment proposals against the national interest on a case-by-case basis in accordance with Australia's Foreign Investment Framework (the Framework). The Framework has had longstanding bipartisan support.

The Framework is set by the Foreign Acquisitions and Takeovers Act 1975 (Act) and the Foreign Acquisitions and Takeovers Fees Impositions Act 2015 (Fees Imposition Act) and their associated regulations.

The Framework is supported by:

— Australia's Foreign Investment Policy (the Policy) which outlines the Australian Government's approach to administering the Framework, including national interest considerations

— Guidance Notes on the specific application of the law which provide more information on how the Framework applies for different acquisitions and investors.

FIRB reviews foreign investment proposals and advises the Commonwealth Treasurer (the Treasurer) on the national interest implications. The responsibility for making final decisions on investment proposals rests with the Treasurer.

3.2 Foreign investment rules for acquisitions of real estate in Australia

The main characteristics of the foreign investment rules for acquisitions of residential and commercial real estate in Australia are summarised in Figure 3.1. Additional details about the Framework's rules, requirements and considerations for approvals of residential and commercial real estate are provided in Appendix A.

Notably, the longstanding foreign investment policy has been to channel foreign investment into new dwellings. As such, foreign residents are unable to buy existing residential dwellings, unless they are temporary residents (e.g. skilled workers, students and other foreign nationals who are temporarily living in Australia) or purchasing the dwelling for redevelopment which will add to housing stock.

The Australian Government's recent 2017 Budget included several proposed changes to the Framework. Information on these changes is provided in Box A.1 in Appendix A. At the time of writing, the final details of these changes are subject to the passage of legislation.

FIGURE 3.1 SUMMARY OF MAIN CHARACTERISTICS OF FOREIGN INVESTMENT RULES FOR AUSTRALIAN REAL ESTATE

Asset type	New dwellings	Existing dwellings	Vacant land for development	Commercial property
Who needs approval?	All foreign persons (except exempt)	All foreign persons (except exempt)	All foreign persons (except exempt)	Foreign persons investing in vacant land and/or in developed land if value is above notification thresholds
Who can receive approval?	All foreign persons	• Temporary residents (must sell within 3 months of leaving) • Foreign persons that operate a substantial Australian business to house their Australian based staff • Foreign persons if bought for redevelopment (provided redevelopment increases the overall housing stock)	All foreign persons	All foreign persons
Who can't buy the asset?		Non-resident foreign persons		
Who is exempt from approval? [a]	• Australian citizens & permanent residents • New Zealand citizens • Individuals purchasing property as joint tenants with their Australian citizen or permanent resident spouse or NZ spouse	• Australian citizens & permanent residents • New Zealand citizens • Individuals purchasing property as joint tenants with their Australian citizen or permanent resident spouse or NZ spouse	• Australian citizens & permanent residents • New Zealand citizens • Individuals purchasing property as joint tenants with their Australian citizen or permanent resident spouse or NZ spouse	• Foreign persons with a close connection to Australia [b] • Foreign persons who acquire an interest in commercial land that is: – acquired directly from government, or a wholly owned government entity [c] – an interest acquired by will or devolution of law – an interest where a foreign person and any associates will hold <10% of interests in shares or units in a listed land entity, or <5% of interest in shares or units in an unlisted land entity [d]

[a] Only some exemptions are included in this table, for details of all exempt persons and actions, please refer to FIRB's Guidance Note 4 (Residential Real Estate – Exemptions).
[b] As defined under subsection 35(1) of the Foreign Acquisitions and Takeovers Regulation 2015.
[c] Except for infrastructure as defined under subsection 31(2) of the Foreign Acquisitions and Takeovers Regulation 2015.
[d] As long as the foreign person is not in a position to influence or participate in the central management of the land entity, or influence, participate in or determine the policy of the land entity.

SOURCE: ACIL ALLEN BASED ON FIRB.

CURRENT STATE OF PLAY OF FOREIGN INVESTMENT IN AUSTRALIA

This chapter provides a snapshot of the quantum, type, origin and destination of foreign investment in Australia, particularly in real estate (including both residential and commercial).

4.1 A word on foreign investment data sources

There is no single authoritative source of data on foreign investment in Australian real estate. The main sources of data on foreign investment into Australia are the following. Additional discussion about these sources is provided in Appendix B.

- ***Australian Bureau of Statistics (ABS)*** — the ABS provides statistics on the level of foreign investment into Australia by industry, including real estate. However, it is not possible to dissect the available information to define values for foreign investment in real estate, either at the total level, or the split between residential and commercial real estate. This is a consequence of the methodology used to collect and compile these estimates (ABS 2014).
- ***Foreign Investment Review Board (FIRB)*** — FIRB publishes data on foreign investment proposals subject to approval (not actual investments). FIRB provides a breakdown of proposed investment by country and sector (including real estate). However, FIRB's data has significant limitations which restrict its use as an indicator of foreign investment in Australian real estate (these are discussed in Appendix B). Notably, it is not possible to compare ABS and FIRB data. The ABS provides statistics on Australia's international investment position using balance of payment data (so it does not trace the investment back to its original source), while FIRB does not measure total foreign investments made, nor does it measure changes in net foreign ownership levels (Australian Treasury 2016a).
- ***Real Capital Analytics (RCA)*** — RCA is a global data and analytics firm offering proprietary research on the investment market for commercial real estate. RCA tracks cross-border acquisitions of commercial real estate globally, providing the most complete dataset of foreign investment in Australian commercial real estate assets available. RCA does not collect data on individual residential transactions. More information about the RCA data included in the analysis is provided in Appendix C.
- ***Offices of State Revenue*** — three Australian states (NSW, Victoria and Queensland) have recently introduced surcharges for residential property purchases by foreigners. As a result of this, the corresponding Offices of State Revenue now collect data on property transfers by foreign buyers. While this data is generally not publically available, a freedom of information request has

seen data for NSW publically released. However, caution is needed when using this data as the definition of foreign investors differ to that used by FIRB and others.[2]

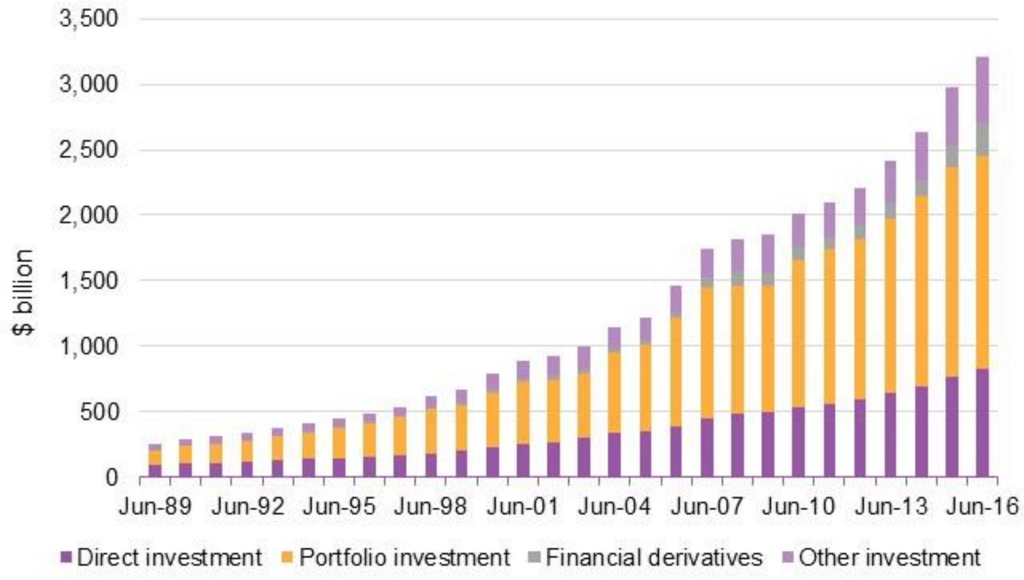
— ***Surveys of 'views' on the share of foreign investment*** — there are at least a couple of publicly available surveys of stakeholders' views[3] on the share of foreign investment in Australian real estate (for instance, the ANZ/Property Council Survey and the NAB Residential Property Survey). These surveys have a number of limitations, which are discussed in detail in Appendix B.

4.2 Foreign investment in Australia at a glance

Australia has a long history of relying on foreign funding for investment (capital inflows). As discussed before, these capital inflows fill the gap between what Australia saves and invests every year (shown in Figure 2.1) and have helped to build the stock of productive capital and increase living standards of Australians.

Foreigners, through the accumulation of their investments, own about $3.2 trillion of capital in Australia, accounting for 55 per cent of Australia's overall level (stock) of capital. Total foreign investment (including direct, portfolio, derivatives and other investment) has recorded strong growth, growing at annual average rate of over 8 per cent over the past decade. Furthermore, over the past decade, foreign investment stocks have more than doubled, increasing by over 120 per cent (see Figure 4.1, which shows the total stock of foreign investment in Australia by year by type).

FIGURE 4.1 STOCK OF FOREIGN INVESTMENT IN AUSTRALIA BY TYPE



SOURCE: ABS (2016), 5302.0 BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION, AUSTRALIA, TABLE 15.[4]

The ABS publishes details about the industry composition of Australia's foreign direct investment (notably, no such data is available for other types of foreign investment — e.g. for portfolio investment or financial derivatives).

As shown in Figure 4.2, the mining industry has had the largest stock of foreign direct investment over the last six years, accounting for around 40 per cent of the total stock in 2015. Other industries with

2 For instance, the data released by the NSW Office of State Revenue (OSR) includes those permanent residents of Australia who are deemed foreign persons for the purposes of the duties surcharge, but does not separate these individuals out.

3 Including real estate agents/managers, property developers, asset/fund managers and owners/investors.

4 The ABS collects data on foreign investment (including foreign direct investment and portfolio investment) through a business survey (the Survey of International Investment, SII). This SII is a quarterly survey which collects information, from end-investors and investees, fund managers and custodians as appropriate, about investment activity into and out of Australia. The SII measures the levels (stock) of foreign financial assets and foreign liabilities of residents; financial transactions (investment flows) resulting in increases and decreases in the levels of these assets and liabilities; other changes in the levels of these assets and liabilities; and income accrued on these assets and liabilities.

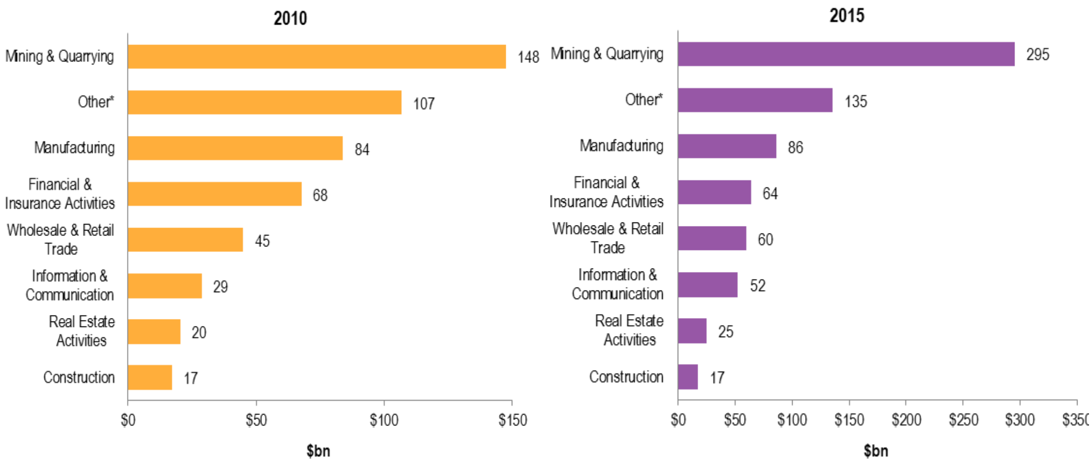
large levels of foreign direct investment include manufacturing, real estate activities and financial and insurance activities. The stock of foreign direct investment in real estate activities increased from 4 per cent in 2010 to 9 per cent in 2015. [5]

Notably, as mentioned before, the ABS data on foreign investment stock does not provide a comprehensive view of foreign investment in real estate in Australia as this data:

— only refers to direct investment and does not capture foreign investment in real estate through other avenues

— is derived via businesses surveys, so where foreign investors own real estate directly without investing through an Australian corporate structure, there is no Australian resident to survey. The value of this investment is modelled based on investment intentions collected from FIRB, media reports and industry-specific periodicals (ABS 2014).

FIGURE 4.2 FOREIGN DIRECT INVESTMENT STOCK IN AUSTRALIA BY INDUSTRY, 2010 AND 2015, ($ BILLION)



*Other include the following industries: Agriculture, Forestry and Fishing; Electricity, Gas and Water, Accommodation and Food Service, Transportation and Storage and Other.

Note: The ABS derives data on real estate investment via businesses surveys. However, where foreign investors own real estate directly without investing through an Australian corporate structure, there is no Australian resident to survey. The value of this investment is modelled based on investment intentions collected from FIRB, media reports and industry-specific periodicals (ABS, 2014).

SOURCE: ABS (2016), 53520 - INTERNATIONAL INVESTMENT POSITION, AUSTRALIA: SUPPLEMENTARY STATISTICS, 2015.

5 The industry categories shown are based on the Australian and New Zealand Standard Industrial Classification (ANZSIC), 2006 (cat. no. 1292.0). Industry statistics should be treated with some caution as they do not necessarily reflect the industry of the end use of the funds. First, the statistical unit (that is, the unit of observation and classification) generally consists of all enterprises in an enterprise group within a single resident institutional sector. The industry of this statistical unit, which may cover a broad range of activities, is determined on the basis of the predominant activity of the unit as a whole which may be quite different from the industry in which funds are used. Second, financial enterprises such as trading and merchant banks, may borrow funds as principals and then on-lend to clients in other industries.

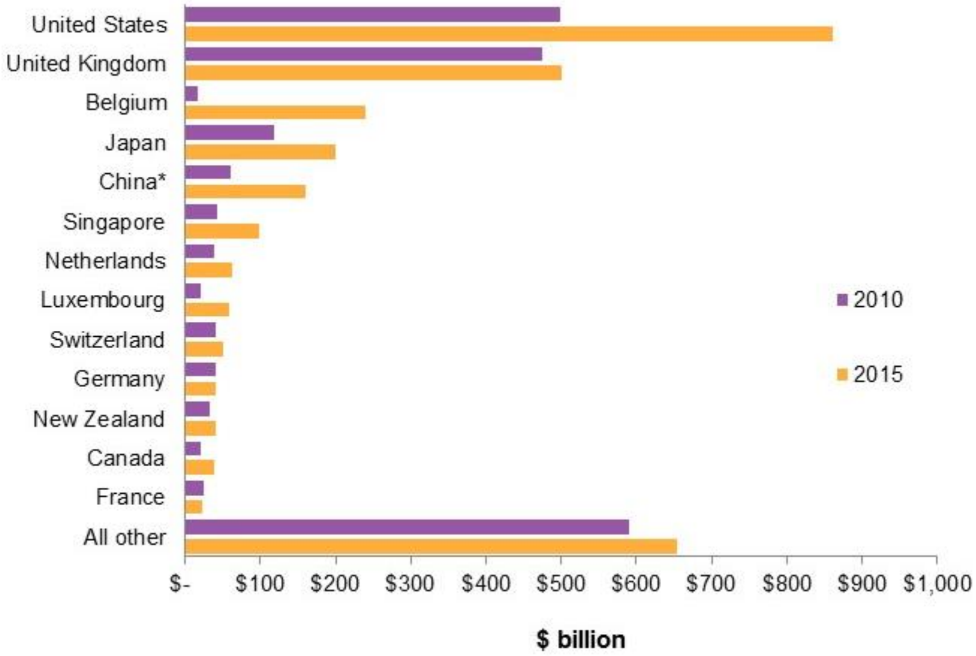
4.2.1 Sources of foreign investment in Australia

Figure 4.3 shows Australia's main sources of foreign investment across all industries in 2010 and 2015. The United States and the United Kingdom are Australia's largest source of foreign investment, accounting for 28 per cent and 17 per cent of the stock of overall foreign investment. In recent years there has been an increase in capital inflows from Belgium, Japan, China and Singapore, which reflect our diversified sources of capital.

Among major investors, Belgium (albeit from low base) increased its capital stock in Australia by more than 15 times between 2010 and 2015, mainly through portfolio investment debt securities, which comprise bonds and notes, money market instruments and other financial derivatives.

China's investment stock[6] in Australia grew by 160 per cent between 2010 and 2015 from a base of $61 billion in 2010 to $160 billion in 2015. At December 2015, China is Australia's fifth largest foreign investor.

FIGURE 4.3 STOCK OF FOREIGN INVESTMENT IN AUSTRALIA (ACROSS ALL INDUSTRIES) BY SOURCE, 2010 AND 2015, ($ BILLION)



* China includes Hong Kong and excludes Taiwan.

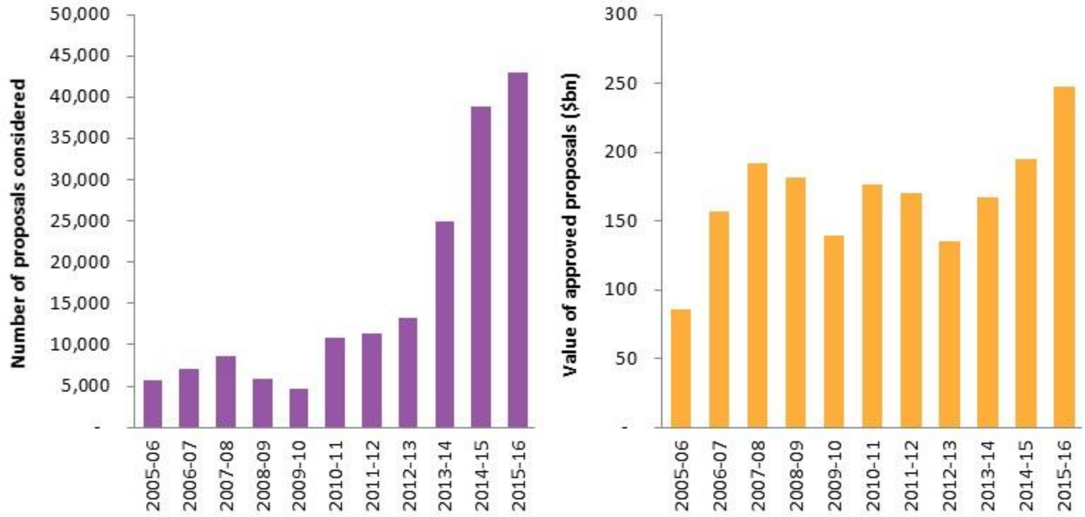
SOURCE: ABS (2016), 53520 - INTERNATIONAL INVESTMENT POSITION, AUSTRALIA: SUPPLEMENTARY STATISTICS, 2015.

4.2.2 Foreign investment proposals and approvals

As mentioned before, FIRB collects data on foreign investment proposals that are subject to approval. The number of FIRB applications for foreign investments across all industries has been steadily increasing over time (see Figure 4.4), reaching 43,000 in 2015-16. Of the total applications considered by FIRB in 2015-16, 41,450 were approved, with a total value of proposed investment of $247.9 billion.

[6] Includes Hong Kong and excludes Taiwan.

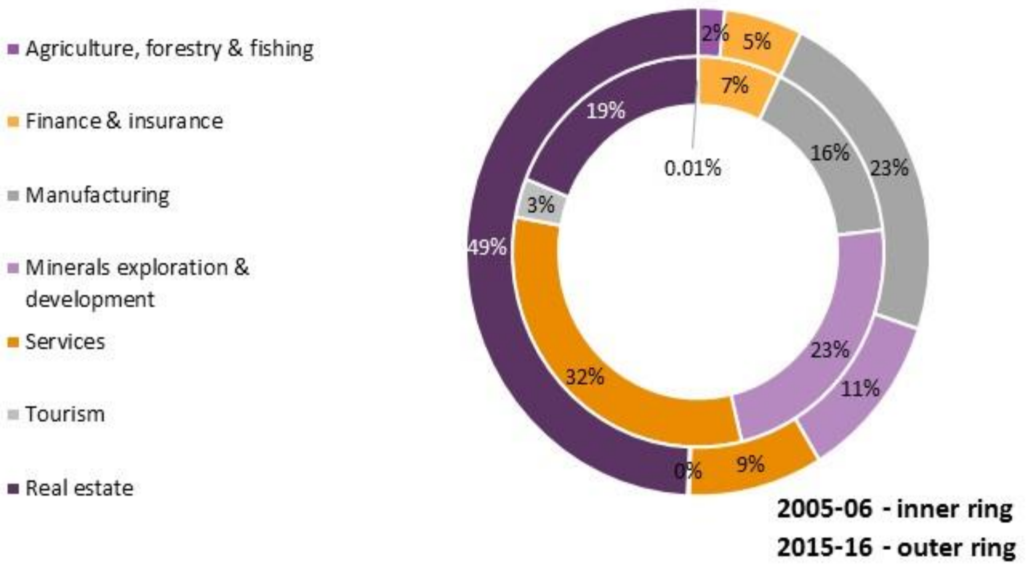
FIGURE 4.4 NUMBER OF FOREIGN INVESTMENT PROPOSALS CONSIDERED BY FIRB AND VALUE OF PROPOSED INVESTMENT OF APPROVED PROPOSALS (ALL INDUSTRIES)



SOURCE: FIRB.

While the overwhelming majority of foreign investment applications decided by FIRB in 2015-16 were within the real estate sector (around 98 per cent of the total number of approved applications), these accounted for around 50 per cent of the approved proposals by value (see Figure 4.5). In contrast, real estate approvals accounted for around 19 per cent of approvals by value in 2005-06, with the services sector leading the value of foreign investment approvals in that year. While these figures provide contextual information about the sectoral distribution of approved proposed investments at two points in time, given the limitations of FIRB data noted before, data is not really comparable over time given the changes in Australia's foreign investment policy throughout the years.

FIGURE 4.5 APPROVED FOREIGN INVESTMENT PROPOSALS BY INDUSTRY DIVISION (ANZSIC) (BY VALUE OF PROPOSED INVESTMENT), 2005-06 AND 2015-16

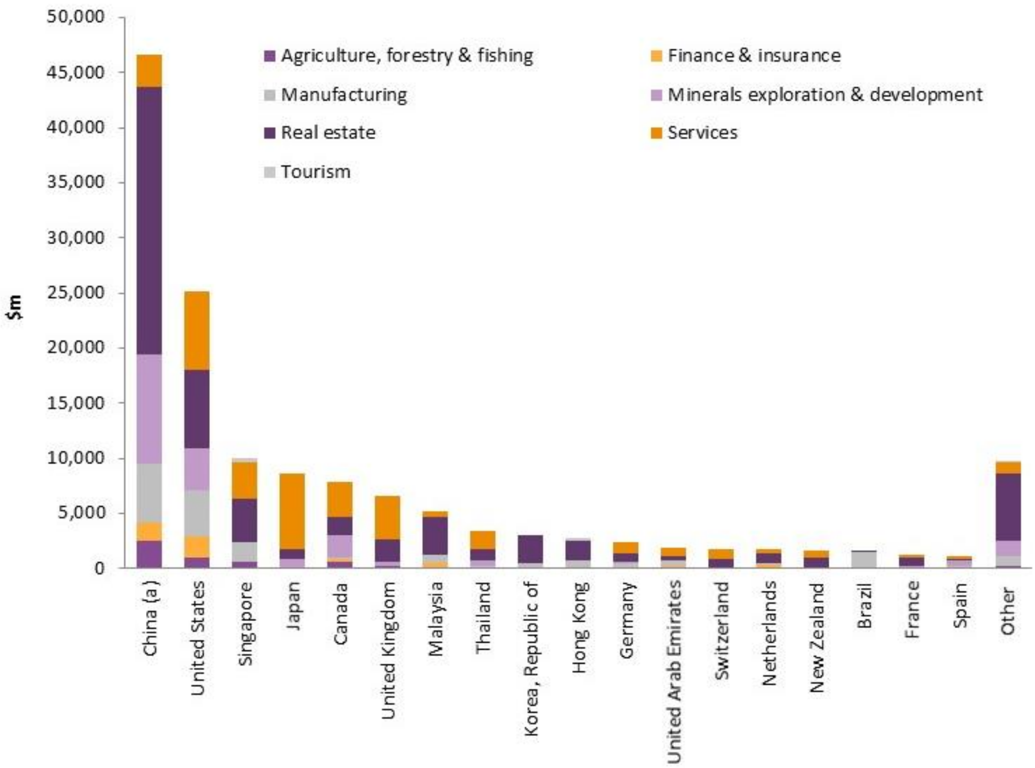


SOURCE: FIRB.

Figure 4.6 shows the total approved foreign investment proposals by country of investor in 2015-16. As shown in this figure, China is the largest source of proposed foreign investment in Australia across all industries. This is mainly driven by residential real estate approvals. Other countries that were major sources of proposed investments in 2015-16 were the United States, Netherlands and Canada.

Importantly, the largest source of *proposed* foreign investment in Australia identified through FIRB data (China) is different to the identified main source of *actual* foreign investment in Australia identified in Figure 4.3 using ABS data (United States). As noted before, these two datasets cannot be compared because FIRB's data does not measure actual foreign investments made, nor does it measure changes in net foreign ownership levels.

FIGURE 4.6 APPROVED FOREIGN INVESTMENT PROPOSALS BY COUNTRY OF INVESTOR, 2015-16



(a) China excludes Special Administrative Regions and Taiwan.

(b) Note: Other comprises all other countries not in the largest 18 countries based on total proposed investment approved, as well as proposed investment approved which cannot be attributed to a country.

SOURCE: FIRB.

4.3 Foreign investment in Australian real estate

The following sections discuss the quantum, type and origin of foreign investment in Australian commercial and residential real estate.

4.3.1 Commercial real estate

Commercial real estate comprises offices, shopping centres and other retail precincts, industrial facilities, hotels, serviced apartments (or apart-hotels) and senior and student housing facilities. These buildings are generally owned by commercial landlords and institutional investors (typically REITs).

Foreign investors provide a significant share of the funds directed towards commercial real estate in Australia and are an essential driving force for new-builds. Foreign investment in Australian commercial real estate also has a number of key benefits, including strengthening the financial position of domestic developers and diversification of investment (as noted in Section 2.3).

As shown in Figure 4.7, over the past ten years, except the Global Financial Crisis (GFC) period, international investment vehicles have funded between 30 and 40 per cent of the total annual investment in commercial real estate in Australia.

It is important to note that this data is broadly based on the location of the investment entity involved in the transaction. Acquisitions by REITs and investment managers are not traced through to their ultimate unitholders. This could therefore understate the level of international investment in Australian commercial real estate. For example, an acquisition of a commercial building by an ASX listed REIT would be attributed as a domestic transaction – however, ASX listed REITs will have a significant number of foreign investors on their share registry, with some having up to 40 per cent foreign unitholders. Data on the level of international investors with portfolio equity interests in Australian-based REITs and investment managers is not publicly available. It is expected that a significant portion of the equity capital in these funds is sourced from global pooled savings, foreign pension funds and institutional investment from advanced overseas economies.

FIGURE 4.7 INVESTMENT IN AUSTRALIAN COMMERCIAL REAL ESTATE BY SOURCE OF CAPITAL (PER CENT OF TOTAL INVESTMENT)

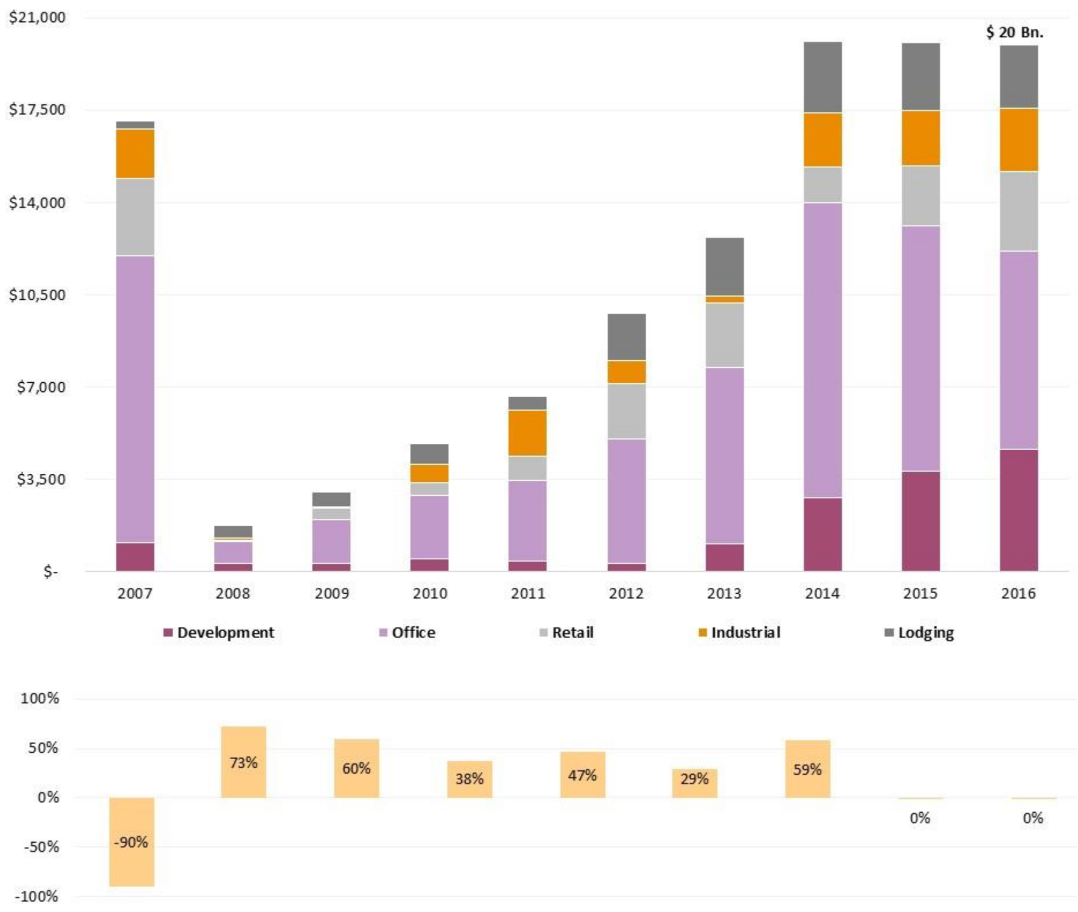
SOURCE: ACIL ALLEN BASED ON REAL CAPITAL ANALYTICS DATA.

Foreign direct investment in commercial real estate in Australia has remained stable in the last three years at around $20 billion (see Figure 4.8). After several years of subdued investment following the GFC, foreign investment in commercial real estate has recovered completely, sitting today about 15 per cent above pre-GFC (i.e. 2007) levels.

Despite the relative stability of foreign investment as a share of total investment in commercial real estate shown in Figure 4.7, the actual dollar value of investment can be volatile (as shown in the bottom part of Figure 4.8 and the investment levels during the GFC). Furthermore, recently there have been noticeable changes in the composition of foreign investment in commercial real estate. Over the last three years, foreign direct investment in office space has declined by 33 per cent, from $11.2 billion in 2014 to just over $7.5 billion in 2016. Meanwhile, foreign investment in commercial development sites and retail assets have filled the void. Indeed, retail investment more than doubled during the same period (reaching $3 billion in 2016) and investment in commercial development sites grew by 66 per cent to $4.6 billion. The curbing of office investment has allowed for a more balanced composition of the foreign investment mix. Indeed, while office space is still the key driver for foreign investment in commercial real estate, its relative share has decreased from 55 per cent in 2014 to 35 per cent in 2016 (in 2007 it was 65 per cent). As noted above, these trends do not take into account investments by Australian-based REITs or investment managers with international capital indirectly funding the transaction.

A snapshot of the foreign investment levels for each commercial asset type is provided in Appendix D.

FIGURE 4.8 ANNUAL TRANSACTION VOLUME BY FOREIGN INVESTORS BY ASSET TYPE ($M) AND YEAR-ON-YEAR CHANGE (CHART BELOW)



Note: Data includes all transactions above $5 million USD. Lodging includes hotels, serviced apartments (apart-hotels), and student and senior housing.

SOURCE: ACIL ALLEN BASED ON REAL CAPITAL ANALYTICS DATA.

Due to the bulky nature of commercial real estate transactions, an analysis of the origin of foreign investment at one particular point in time may bias conclusions. As such, Figure 4.9 shows the top five sources of foreign commercial real estate investment in Australia in 2016, 2012 and 2007, as well as the aggregate for the period. This data shows that for the 2007-2016 period, the top five origin countries represented three quarters of all foreign investment in commercial real estate in Australia. The United States topped the list with a cumulative investment of $25.7 billion (or 22 per cent of the total foreign investment over the period), while Singapore followed closely with an aggregate investment of $23.4 billion (20 per cent of the total). Notably, only Singapore has stayed in the top five sources of investment in commercial real estate across all the years in the period (the United States dropped out in 2008).

FIGURE 4.9 TOP FIVE SOURCES OF FOREIGN INVESTMENT IN COMMERCIAL REAL ESTATE IN AUSTRALIA ($M)

	2016		2012		2007		2007-2016	
	World	$ 19,942		$ 9,788		$ 17,097	World	$ 115,952
1	China	$ 5,775	Singapore	$ 3,014	USA	$ 7,843	USA	$ 25,704
2	USA	$ 5,320	Canada	$ 2,641	Canada	$ 5,279	Singapore	$ 23,431
3	Singapore	$ 2,834	Malaysia	$ 1,384	Singapore	$ 2,016	China	$ 18,074
4	Hong Kong	$ 1,172	USA	$ 1,153	UK	$ 651	Canada	$ 16,058
5	France	$ 1,084	Hong Kong	$ 472	Japan	$ 305	Hong Kong	$ 5,232

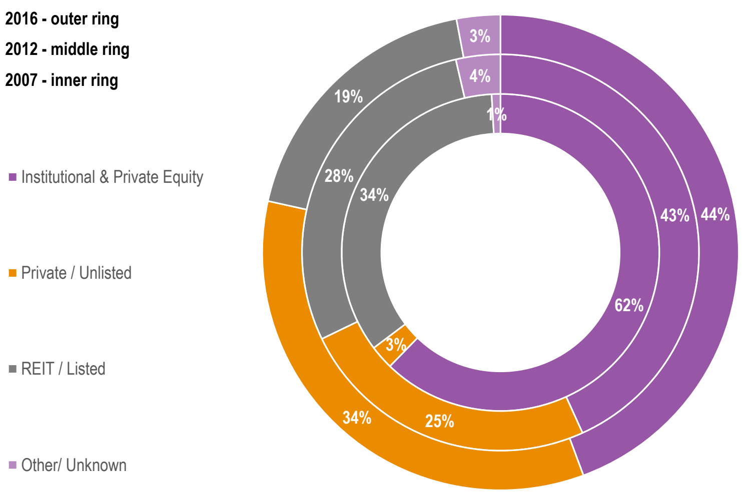
Note: Data includes all transactions above $5 million USD.

World USA Singapore China Canada Hong Kong UK Japan Malaysia France

SOURCE: ACIL ALLEN BASED ON REAL CAPITAL ANALYTICS.

Foreign commercial real estate investment can be funnelled into the economy through several different channels. Figure 4.10 shows that over the last ten years, the share of institutional and private equity investors in commercial real estate in Australia has been slowly dwindling. Indeed, while in 2007 over 60 per cent of all foreign investment in commercial real estate was sourced through institutional and private equity investors, this share has reduced to just under 45 per cent in 2016. Likewise, the share of international-based REITs/ listed investors has dropped from 34 per cent in 2007 to 19 per cent in 2016. On the other hand, the weight of private/ unlisted foreign investors on commercial transactions has surged from 3 per cent in 2007 to just under 35 per cent in 2016. As noted above, the data does not include transactions involving Australian-based REITs or investment managers with international capital indirectly funding the transaction.

FIGURE 4.10 FOREIGN INVESTMENT IN COMMERCIAL REAL ESTATE BY INVESTOR TYPE

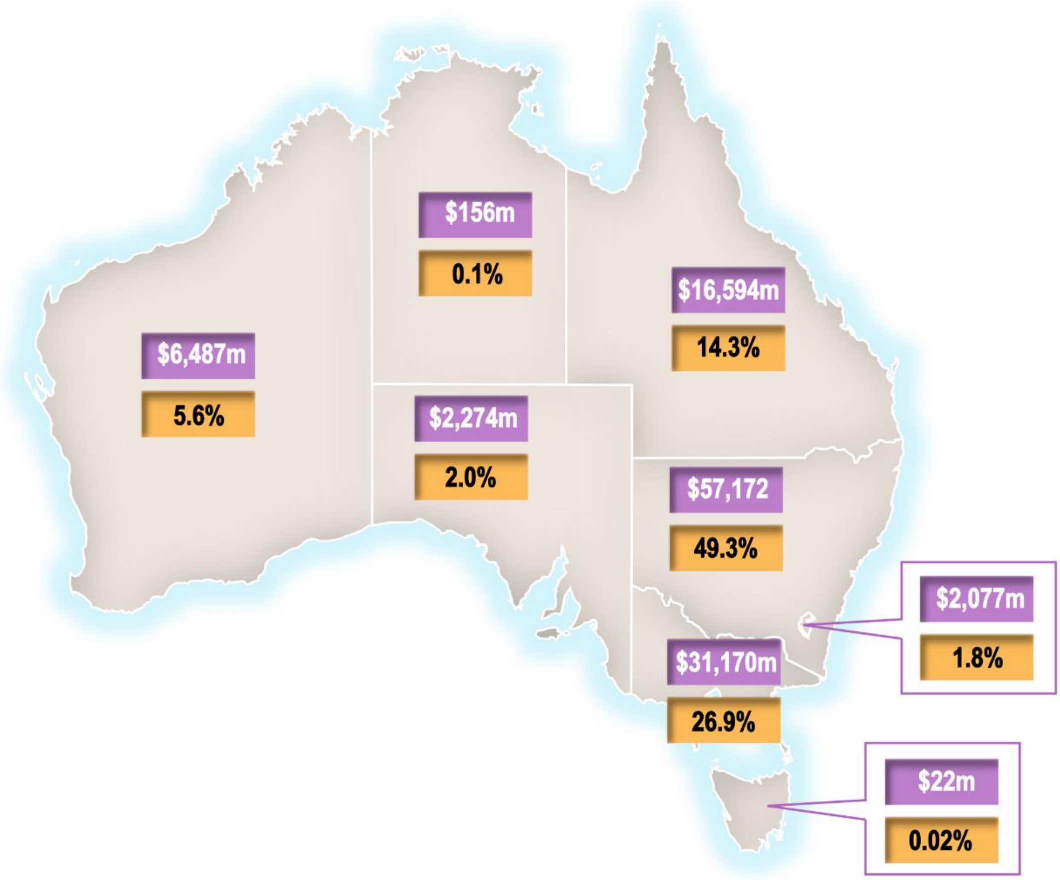


Note: Data includes all transactions above $5 million USD.

SOURCE: ACIL ALLEN BASED ON REAL CAPITAL ANALYTICS.

Foreign direct investment in commercial real estate is overwhelmingly directed towards the east coast of Australia. Indeed, NSW, Victoria and Queensland received 9 of every 10 dollars invested by foreigners in commercial real estate in Australia between 2007 and 2016. In particular, NSW received almost half the investment, Victoria 27 per cent and Queensland the remaining 14 per cent (see Figure 4.11).

FIGURE 4.11 FOREIGN DIRECT INVESTMENT IN COMMERCIAL REAL ESTATE BY STATE 2007 – 2016 ($M)

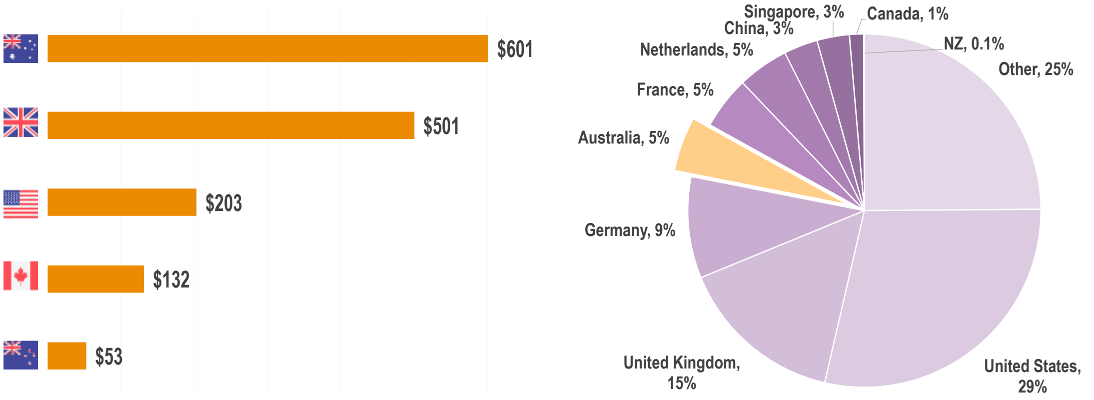


Note: Data includes all transactions above $5 million USD.

SOURCE: ACIL ALLEN BASED ON REAL CAPITAL ANALYTICS.

Australia competes for foreign investment in an extremely competitive global market place. Figure 4.12 aims to provide a comparative picture as to where the country stands in term of attracting foreign investment into commercial real estate. The figure on the left shows that in 2016 Australia received around $600 of foreign investment in commercial real estate per-capita, a figure that triples the United States and is almost 12 times higher than neighbouring New Zealand. The figure on the right shows the overall share of global cross-border (foreign) investment in absolute terms (i.e. total dollars). As shown in this figure, Australia has received five cents out of every dollar of global foreign investment in commercial real estate, ranking fourth below the United States, United Kingdom and Germany. Australia's performance in attracting foreign investment to commercial real estate is particularly impressive considering that the size of the national economy relative to the global economy (as measured by nominal GDP) amounts to approximately 1 per cent. Thus, making the country one of the star performers in attracting foreign investment in commercial real estate.

FIGURE 4.12 GLOBAL CROSS-BORDER INVESTMENT PER CAPITA BY SELECTED DESTINATION COUNTRIES - 2016 NOMINAL USD (LEFT) AND GLOBAL CROSS-BORDER INVESTMENT BY DESTINATION COUNTRY - 2016 IN % (RIGHT)

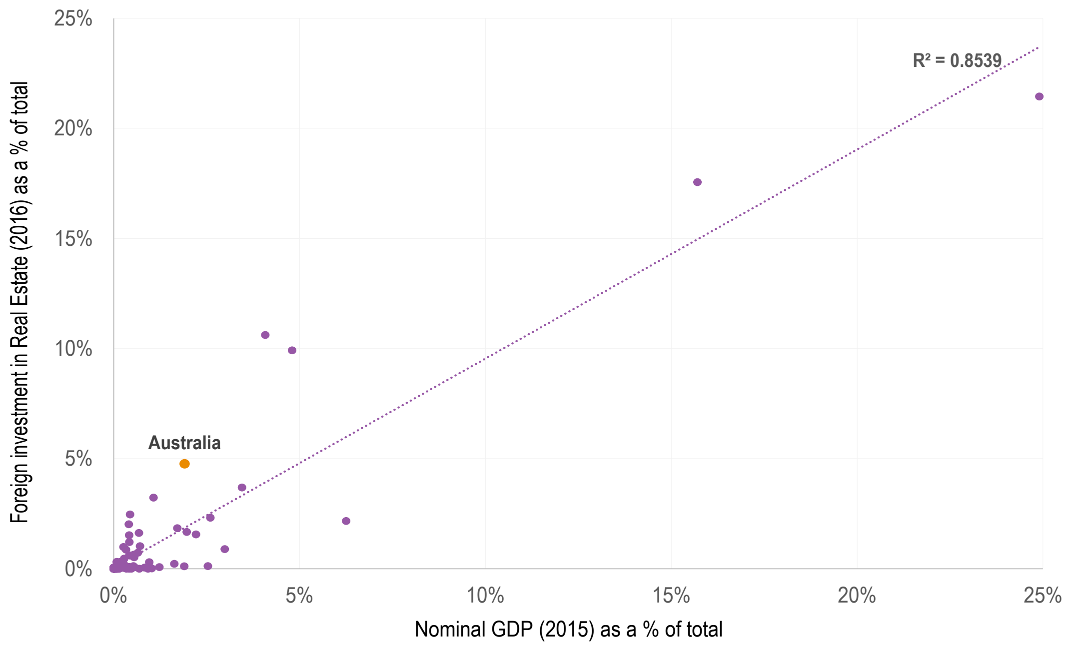


Note: Global data includes all transactions above $10 million USD. This is for consistency purposes with thresholds used by RCA to capture transactions from other countries and to match the data across the world. Transactions are recorded in the local currency first and converted by 1st of month exchange rate to other currencies.

SOURCE: ACIL ALLEN BASED ON REAL CAPITAL ANALYTICS DATA.

Figure 4.13 shows Australia's share of real estate investment (vertical axis) and share of global GDP (horizontal axis). All dots that fall above the 45 degree line show countries that attract a proportionately higher share of foreign investment in real estate than what would be implied by the size of their economy (like Australia).

FIGURE 4.13 CORRELATION BETWEEN GROSS DOMESTIC PRODUCT (GDP) AND FOREIGN INVESTMENT IN REAL ESTATE (AS A SHARE OF TOTAL IN NOMINAL USD)



Note: Global data includes all transactions above $10 million USD. This is for consistency purposes with thresholds used by RCA to capture transactions from other countries and to match the data across the world. Transactions are recorded in the local currency first and converted by 1st of month exchange rate to other currencies. Purple dots represent 'other' countries. It must be noted that whilst the correlation between the size of the economy and foreign direct investment in real estate is high, it is not 'perfect'. Likewise, correlation does not imply causation.

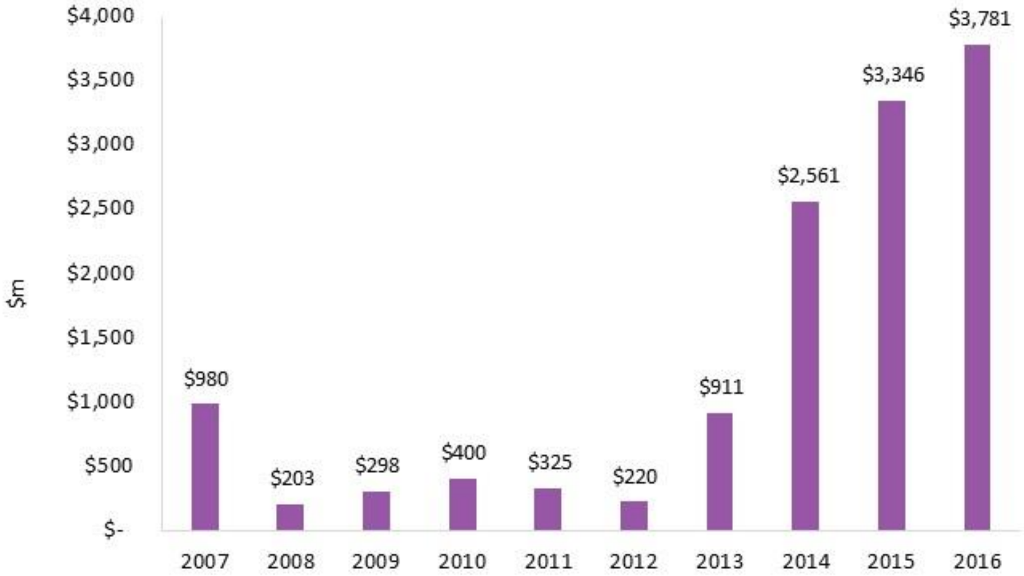
SOURCE: ACIL ALLEN BASED ON REAL CAPITAL ANALYTICS AND WORLD BANK.

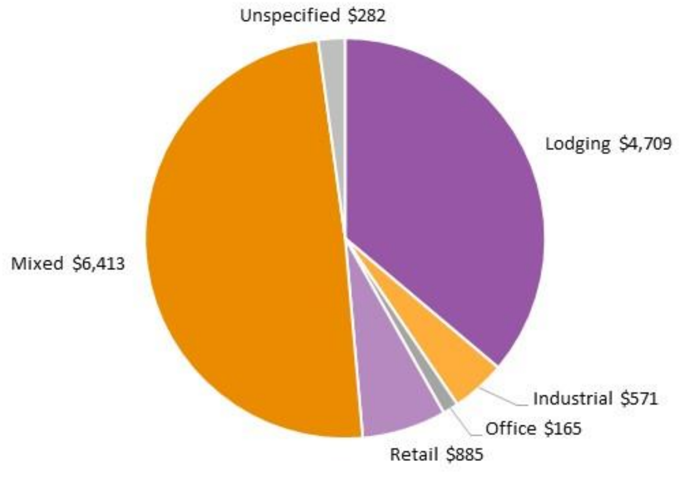
Commercial real estate developments

Foreign investment in commercial real estate developments has picked up pace in recent years. Indeed, as shown in Figure 4.14 (above), total investment in development sites for commercial assets has grown four-fold in the last three years, sitting at $3.8 billion in 2016. To account for the impact on yearly volatility the chart on the right shows the composition of the aggregate investment (i.e. between 2007 and 2016) by asset type. Sites for mixed used (which includes a combination of residential/hotel and commercial uses) and for lodging (i.e. hotels, serviced apartments, and student and senior housing) account for 85 per cent of all foreign investment in commercial real estate developments in Australia.

Foreign capital typically invests indirectly in retail, office and industrial developments through their equity interests in Australian-based REITs and investment managers.

FIGURE 4.14 FOREIGN DIRECT INVESTMENT IN COMMERCIAL DEVELOPMENTS IN $M AND BY ASSET TYPE , 2007 – 2016



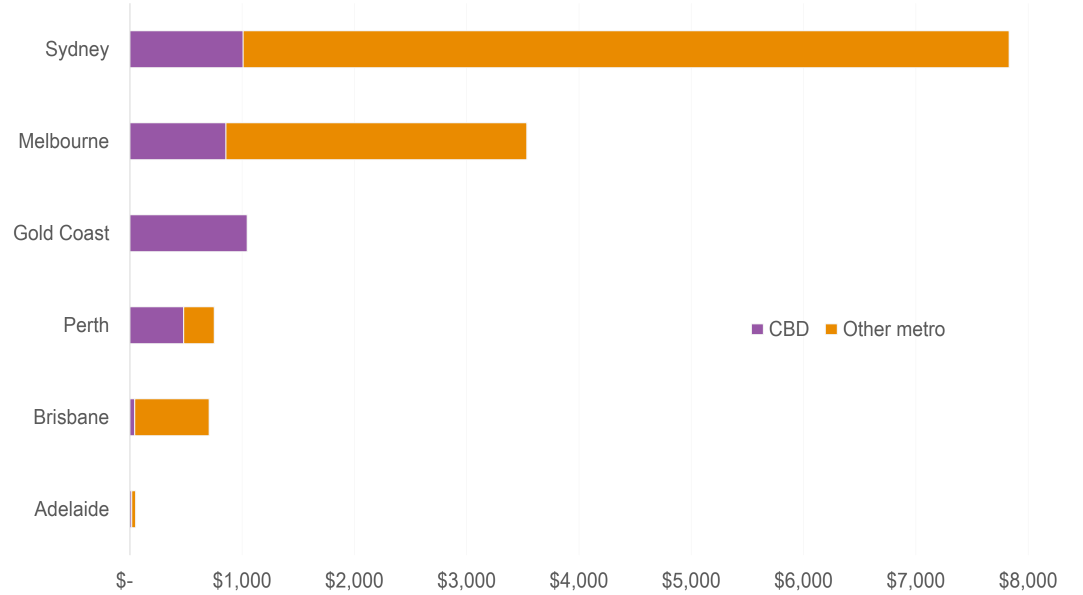


Note: Data includes all transactions above $5 million USD. Lodging includes hotels, serviced apartments (apart-hotels), and student and senior housing.

SOURCE: ACIL ALLEN BASED ON REAL CAPITAL ANALYTICS.

On a locational basis, the east coast capital cities account for the vast majority of foreign investment in commercial development sites, with the Sydney metro area (excluding the CBD) the clear winner in terms of foreign investment for new commercial developments over the 2007-2016 period. It is also worth noting the high relative investment in the Gold Coast, which was the third largest recipient in the 2007-2016 period. As noted above, foreign capital typically invests in CBD commercial property through their equity interests in Australian-based REITs and investment managers.

FIGURE 4.15 FOREIGN DIRECT INVESTMENT IN DEVELOPMENT SITES BY LOCATION IN $M - CBD AND OTHER METRO AREAS, 2007 – 2016



Note: Data includes all transactions above $5 million USD and does not include transactions outside metropolitan areas and as such does not exactly correlate to data in section 4.3.1.

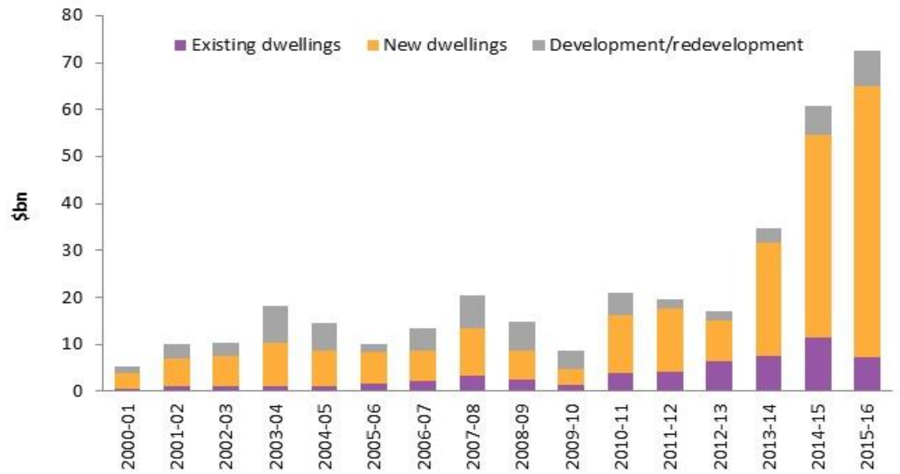
SOURCE: ACIL ALLEN BASED ON REAL CAPITAL ANALYTICS DATA.

4.3.2 Residential real estate

As noted before, despite its numerous limitations, FIRB approvals are the main source of data available to assess the likely *upper limit* of foreign investment in Australian residential real estate.

While volatile from year to year, the FIRB data indicates that the value of approved foreign investment in residential real estate in Australia has increased significantly, rising from around $5.3 billion in 2000-01 to more than $72 billion in 2015-16 (see Figure 4.16). Not surprisingly given FIRB rules do not allow foreign investors to buy existing dwellings (unless they are temporary residents), this increase has been mainly driven by approvals to acquire new dwellings (although approvals to purchase existing dwellings have also increased over time). [7]

FIGURE 4.16 APPROVED FOREIGN INVESTMENT PROPOSALS (VALUE) BY TYPE OF APPROVALS



SOURCE: FIRB.

Residential development/redevelopment

The value of approved foreign investment for residential development/redevelopment has been volatile throughout the years (see Figure 4.17). During 2015-16, 8,011 proposals were approved for the acquisition of residential real estate for development (including eligible redevelopment), with a value of approximately $7.6 billion.[8]

The vacant land category consists primarily of individual blocks of land purchased for single dwelling construction and broad acre land for residential subdivision and multiple-dwelling residential developments (such as townhouses and units). A total of 7,005 proposals for the purchase of vacant land were approved by FIRB with a value of $2.8 billion in 2015-16. These approvals are normally approved subject to conditions (e.g., that construction begins within 24 months).

Approvals for redevelopment involve the acquisition of existing property for the purpose of demolition and construction of new residential dwellings. Some 988 proposals by foreign interests to acquire residential real estate for development were approved in 2015-16, with a total proposed investment of $2.8 billion. Applications for redevelopment are normally approved as long as the redevelopment increases Australia's housing stock (at least two dwellings built for the one demolished) and are also subject to conditions.

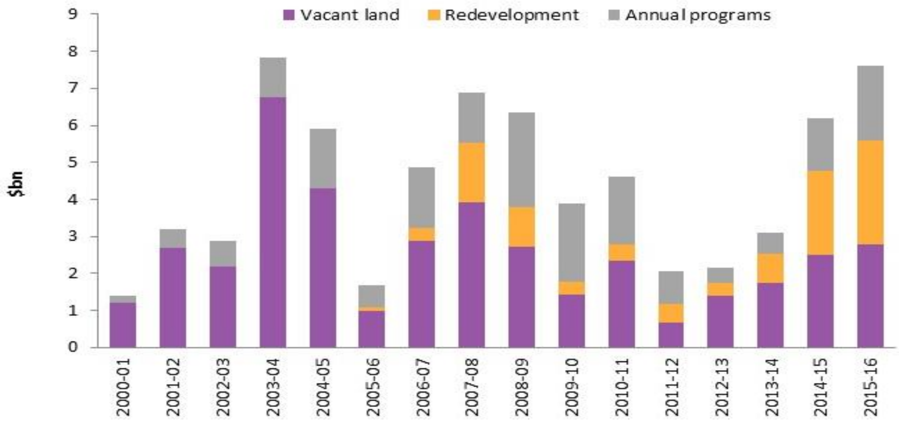
The 'annual program' arrangements allow foreign persons to apply for an annual approval for real estate acquisitions up to a specified global monetary limit. Such an approval relieves them of the

7 Notably, FIRB's data has been grouped and classified in this report as follows. Existing dwellings include the following FIRB's categories: developed existing residential property (including individual purchases and Established Dwellings Exemption Certificates) and annual programs/exemption certificates. New dwellings include the following FIRB's categories: new dwellings individual purchases and developer 'off-the-plan'/New Dwellings Exemption Certificates. Residential real estate for development includes the following FIRB's categories: vacant land for development, redevelopments and annual programs for development/ Exemption Certificates).

8 Excluding new dwellings (individual purchases and developer 'off-the-plan').

requirement to seek separate approvals for individual real estate acquisitions within the approved value and the approval year. Approvals are subject to the condition that applicants subsequently report on the actual acquisitions completed and any associated development. Applicants are also required to comply with the standard requirements that would apply under the Policy for the type of property purchased. A total of 18 annual program proposals were approved by FIRB with a value of $2 billion in 2015-16.

FIGURE 4.17 APPROVED FOREIGN INVESTMENT PROPOSALS (VALUE) FOR DEVELOPMENT/REDEVELOPMENT



Note: Before 2005-06 no data was separately provided for re-development. Excludes new dwellings (individual purchases and developer 'off-the-plan').

SOURCE: FIRB.

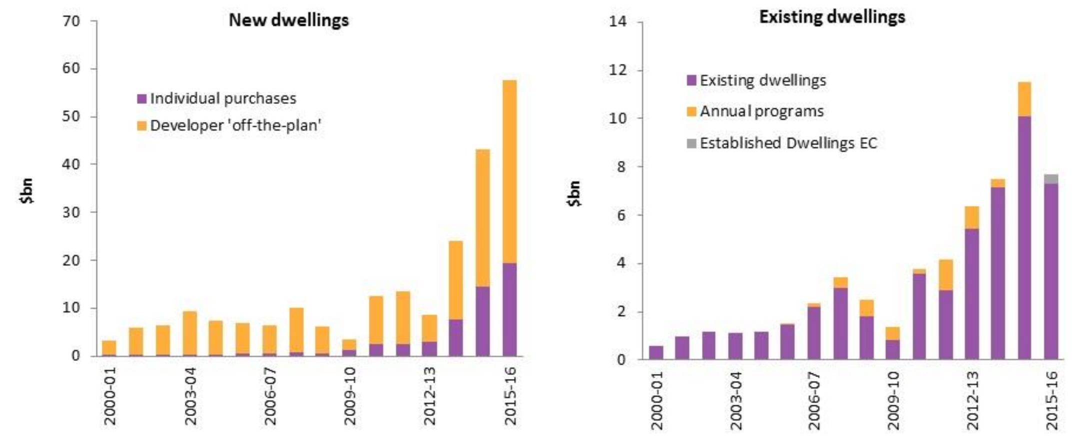
New and existing dwellings

The value of approved foreign investment for the purchase of new and existing dwellings has increased significantly in the last few years (see Figure 4.18). As shown in this chart, during 2015-16:

— 26,253 proposals were approved for the acquisition of new dwellings (including individual purchases and developer off the plan), with a value of approximately $57.6 billion. This is an increase of 34 per cent on the value of proposals approved in 2014-15

— 5,877 proposals were approved for the acquisition of existing dwellings, with a value of approximately $7.3 billion. This is a decrease of 37 per cent on the value of proposals approved in 2014-15.

FIGURE 4.18 APPROVED FOREIGN INVESTMENT PROPOSALS (VALUE) FOR NEW AND EXISTING DWELLINGS



Note: The established Dwellings Exemption Certificate was introduced in 2015-16.

SOURCE: FIRB.

Foreign investment in residential real estate in perspective

Focusing solely on the change in the value of investment approved by FIRB can be misleading, as dwelling prices and overall dwelling turnover have also increased significantly over the past decade. To account for this, an analysis has been undertaken assessing the value of foreign residential approvals as a share of total dwelling turnover. A similar analysis was conducted by the Reserve Bank of Australia (RBA) for its submission to the 2014 Inquiry into Foreign Investment in Residential Real Estate (see RBA 2014).

As noted many times before in this report, FIRB's approval data overstate the actual value and number of dwellings purchased by foreign persons. For instance, the value of approvals for the purchase of new dwellings in 2015-16 (around $57.6 billion) is higher than the total value of new residential work completed in the same year as recorded by the ABS ($55.86 billion). While it is recognised that the year of approval does not align with the time the development is constructed and individual dwelling units are sold, this comparison helps put the magnitude of the approvals in perspective.

In light of the above, to provide a more realistic comparison of the value of foreign residential approvals as a share of total dwelling turnover, the value of FIRB's approvals for the purchase of new off-the plan dwellings was adjusted to reflect the potential conversion rate from approvals to purchases. Although FIRB can grant approval to sell up to 100 per cent of dwellings in off-the plan developments to foreign persons, Treasury estimates based on historical data that on average only around 35 per cent of dwellings in these developments are sold to foreign persons (Australian Treasury, 2014).[9]

9 Based on these Treasury estimates, and assuming that approval was sought for 100 per cent for all off-the plan developments, the value of FIRB's approvals in each year was adjusted to be 35 per cent of its original value. Estimates effectively assume that the year in which an approval is made by the FIRB aligns with the years that the consequent dwellings are sold.

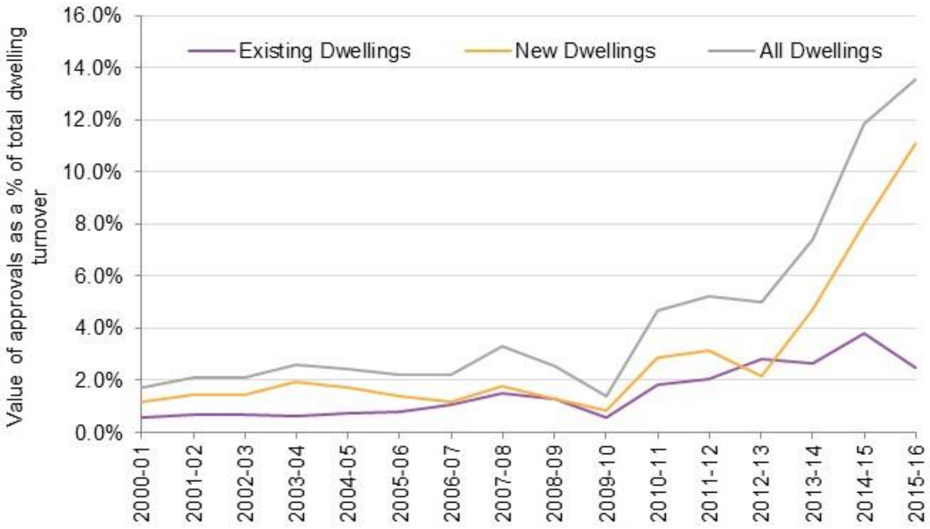
FIRB's approvals for individual purchases of new and existing dwellings are also overstated, as some foreign persons will seek several approvals to allow them to bid at different auctions (but may only purchase one property), or be unsuccessful and purchase none at all. However, in contrast to approvals for off-the plan dwellings, there are no robust estimates of conversion rates to adjust approvals for individual purchases of new and existing dwellings and hence FIRB's data for these approvals is used in the analysis un-adjusted.

Approvals for residential development are excluded from the analysis as the dwelling turnover data used for the analysis only includes sales of houses and units, not vacant land for development.

The results of this analysis are shown in Figure 4.19 and the key messages are as follows (noting again that FIRB's approval data overstate the actual share of dwellings purchased by foreign citizens and temporary residents in Australia).

— The value of FIRB's *total foreign residential approvals* as a share of the value of total dwelling turnover in Australia remained broadly steady through the 2000-01 to 2012-13 period, fluctuating around 2-5 per cent. However, there has been a marked increase from 2013-14, with the value of total foreign approvals as a share of total dwelling turnover in Australia increasing to 13.5 per cent in 2015-16.
— FIRB's approvals for purchases of *new dwellings*[10] as a share of total dwelling turnover have significantly increased in recent years. While these approvals fluctuated around 1-3 per cent over the 2000-01 to 2012-13 period, they reached 11 per cent in 2015-16.
— Over the last fifteen years, there has been a small increase in FIRB's approvals to purchase *existing dwellings*, although these approvals remain only around 2.5 per cent of the total value of housing turnover in 2015-16.

FIGURE 4.19 VALUE OF FIRB RESIDENTIAL REAL ESTATE APPROVALS AS A SHARE OF TOTAL DWELLING TURNOVER, AUSTRALIA



Note: New dwellings include completed new dwellings, both individual purchases and developer 'off-the-plan' (adjusted for conversions from approval to purchase). Existing dwellings include existing residential property and annual programs. Estimates effectively assume that the year in which an approval is made by the FIRB aligns with the years that the consequent dwellings are sold.

SOURCE: ACIL ALLEN BASED ON FIRB AND CORELOGIC DATA.

A similar analysis can be undertaken using FIRB's data on the number of foreign approvals each year. However, the number of approvals granted to residential developers for off-the plan dwellings needs to be adjusted as FIRB grants just a single approval to the developer, but the number of dwellings sold in

[10] Adjusted as noted above and excluding approvals for development.

each development are more than one. Treasury (2014) estimates that the average size of an off-the plan development is around 170 dwellings.[11]

The key findings emerging from the analysis of number of foreign approvals are as follows (see Figure 4.20).

— While the number of approvals for both new and existing dwellings have increased over time (particularly in the last three years), they represent around 9 per cent of the total number of dwellings turned over in Australia.
— The number of (adjusted) approvals for purchases of new dwellings represents around 7.8 per cent of the total number of dwellings turned over in 2015-16.
— FIRB's approvals to purchase existing dwellings have increased slightly over the last fifteen years, but are only around 1.2 per cent of the total number of dwellings turned over in Australia.

The number of approvals sought is an important indicator, as it reflects the number of potential foreign buyers in the market.

FIGURE 4.20 NUMBER OF FIRB RESIDENTIAL REAL ESTATE APPROVALS AS A SHARE OF TOTAL DWELLING TURNOVER, AUSTRALIA

Note: New dwellings include completed new dwellings, both individual purchases and developer 'off-the-plan' (adjusted for conversions from approval to purchase). Existing dwellings include existing residential property and annual programs.

SOURCE: ACIL ALLEN BASED ON FIRB AND CORELOGIC DATA.

Following the introduction of the stamp duty surcharge for foreign persons in NSW, the NSW Office of State Revenue (OSR) recently released data on the citizenship and tax residence of home buyers in the state. The data allows classification of purchasers as either being Australians, dual nationals (i.e. having Australian citizenship and at least another citizenship) or foreign nationals. However, the majority of transactions reported do not have data on citizenship and are classified as "unknown".

An analysis of this data is provided in Table 4.1. According to this dataset, foreign nationals accounted for 8.6 per cent of all residential real estate transactions in NSW between July 2015 and September 2016 (the period for which data is publically available) where the nationality of the buyer is known and for 11 per cent of the value of these transactions.

As shown in Table 4.1, buyers of unknown citizenship comprise the vast majority of this dataset (77.2 per cent). If it is assumed that all purchasers of unknown origin are Australians (a strong but plausible assumption considering that nationals are not obliged to disclose their citizenship by the FIRB), then

[11] The number of approvals for off-the plan developments were adjusted upwards based on Treasury's estimates about the average size of off-the plan developments, the conversion rate of approvals into purchases and an assumption that, as an upper limit, approval was sought for 100 per cent of the dwellings in these projects to be sold to foreigners.

the ratio of foreign buyers over all transactions in the period shrinks to 2 per cent in volume and 2.1 per cent in value.

However, even if the 8.6 per cent and 11 per cent figures above were accurate, the NSW OSR figures do not provide good evidence about the proportion of properties bought by foreigners because they include permanent residents of Australia who are deemed foreign persons for the purposes of the stamp duty surcharge.[12]

According to some media reports, once permanent residents who are not required to pay the stamp duty surcharge or get FIRB approval are excluded from these figures, the proportion of residential sales to foreign nationals in this dataset would decrease to around 1.5 per cent (see Winestock 2017 and Duke 2017).

TABLE 4.1 MAGNITUDE AND PROPORTION OF FOREIGN BUYERS OF RESIDENTIAL REAL ESTATE IN NSW – JULY 2015 TO SEPTEMBER 2016

Citizenship of buyer	Number of transactions assessed	Value of stamp duty assessed (in $m)	Proportion over purchasers with disclosed citizenship		Proportion over all purchasers	
			in volume	in value	in volume	in value
Unknown	168,908	$6,604	na	na	77.2%	81.3%
Australian	43,273	$1,260	86.7%	83.2%	19.8%	15.5%
Dual National	2,363	$88	4.7%	5.8%	1.0%	1.1%
Foreign	4,300	$167	8.6%	11.0%	2.0%	2.1%
Total	218,844	$8,119				

Note: This is the period for which data is publicly available.

SOURCE: NSW OFFICE OF STATE REVENUE, 2017A.

12 According to the NSW OSR, a person is deemed 'foreign' for the purposes of a duties surcharge if the individual making the purchase has not been in Australia during 200 or more days in the period of 12 months immediately preceding the purchase.

5

IMPACT OF FOREIGN INVESTMENT IN REAL ESTATE

This chapter uses quantitative analysis to assess the potential impacts of a reduction in foreign investment flows into Australia's commercial and residential real estate sectors. The aim of this analysis is to highlight the importance of foreign investment in real estate for Australia and the potential implications of possible policy interventions or changing investment conditions that could significantly restrict foreign investment in real estate.

5.1 Overview of economic modelling

The following two hypothetical scenarios have been analysed using a Computable General Equilibrium (CGE) model of the Australian economy, the Victoria University Regional Model (VURM).[13]

— ***Scenario 1: reduction of foreign capital for residential construction*** — this scenario analyses the impact on the economy of permanently reducing the amount of foreign investment inflows for development of new residential dwellings (i.e. the supply of foreign capital that goes into residential construction) by 20 per cent from 2017-18 (estimated to be approximately $1.5 billion in 2017-18).[14]

— ***Scenario 2: reduction of foreign capital for commercial construction*** — this scenario examines the economic impact of permanently reducing the amount of foreign investment inflows for development of new commercial real estate in Australia (i.e. the supply of foreign capital that goes into commercial real estate construction) by 20 per cent from 2017-18 (estimated to be approximately $3.4 billion in 2017-18).[15]

Scenario 1 was selected because, while in certain circumstances foreigners can buy existing residential dwellings, the aim of Australia's foreign investment policy is to encourage the increase of Australia's housing stock. Hence, this scenario aims to illustrate the potential impacts of any regulatory change that would discourage this type of investment (i.e. it illustrates the impact of a supply side shock). Furthermore, modelling a scenario where purchases of individual dwellings by foreigners was reduced (i.e. a demand side shock) would not only be very complex and require significant model development, but would have to be based on several assumptions regarding alternative investor behaviour and feedback loops (e.g. where would foreign investors put their money instead of in Australian residential dwellings).

[13] VURM was formerly known as the MMRF model. The name change occurred when the Centre of Policy Studies relocated from Monash University to Victoria University in 2014.

[14] As noted before, there is no information about the actual amount of foreign investment in Australian residential real estate. As such, to model this scenario ACIL Allen produced estimates of foreign investment inflows for development of new residential real estate based on available FIRB and ABS data. These estimates were benchmarked against the current total levels of foreign inflows into Australia and the value of residential construction to ensure that they were realistic and consistent with the macroeconomic environment. However, these estimates are provided for illustrative purposes only.

[15] Estimate based on RCA data.

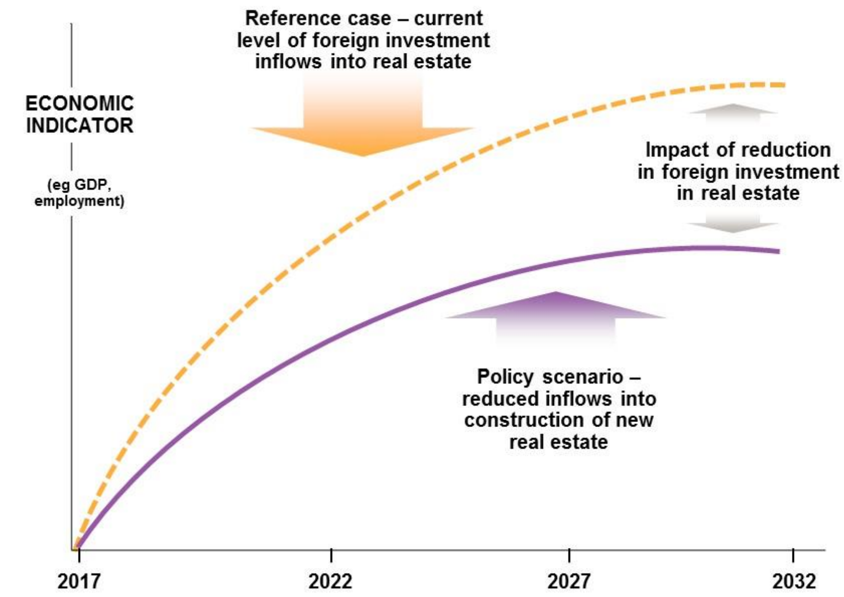
Similar to Scenario 1, Scenario 2 aims to illustrate the potential impacts of discouraging foreign investment for the construction of commercial real estate.

As discussed in previous chapters, the actual level of foreign investment in residential real estate is unknown and the level of foreign investment in commercial real estate can be volatile. As such, the magnitude of the shocks was assumed, but benchmarked to existing data to ensure that it was realistic and consistent given Australia's current capital inflows.

As mentioned above, the analysis of the two hypothetical scenarios was undertaken using the VURM model. VURM is a multi-regional CGE model of the Australian economy that has been used for similar modelling by the Australian Treasury and the Productivity Commission. For this analysis, the model's database has been updated to reflect the most recent macroeconomic and external accounts data. The model is dynamic and captures a range of stock-flow relationships in the economy. This allows time for the longer term consequences of capital shallowing[16] in the real estate sector to be observed.

Each of the scenarios were modelled for a ten year period from 2017-18 to 2026-27. To isolate the impact of restrictions on foreign investment, all modelling results are compared to a reference case where no limit or reduction in capital inflows in the real estate sector is imposed. This is illustrated schematically in Figure 5.1.

FIGURE 5.1 ILLUSTRATIVE SCENARIO ANALYSIS USING VURM



Note: In reality impacts could be negative, positive, neutral or a mixture through time.
SOURCE: ACIL ALLEN CONSULTING.

Further details of the modelling approach and the model used for this analysis are provided in Appendix E.

The following sections outline the projected broader economic impacts of the two scenarios outlined above. All of the reported economic impacts represent changes relative to the reference case or business as usual scenario where no limit or reduction in capital inflows is imposed and are provided in 2016-17 dollars. All present value (PV) calculations use a 4 per cent real discount rate.

5.2 Real GDP

Gross Domestic Product (GDP) is one of the primary indicators used to gauge the health of an economy. It measures the amount of economic activity happening in the country and represents the

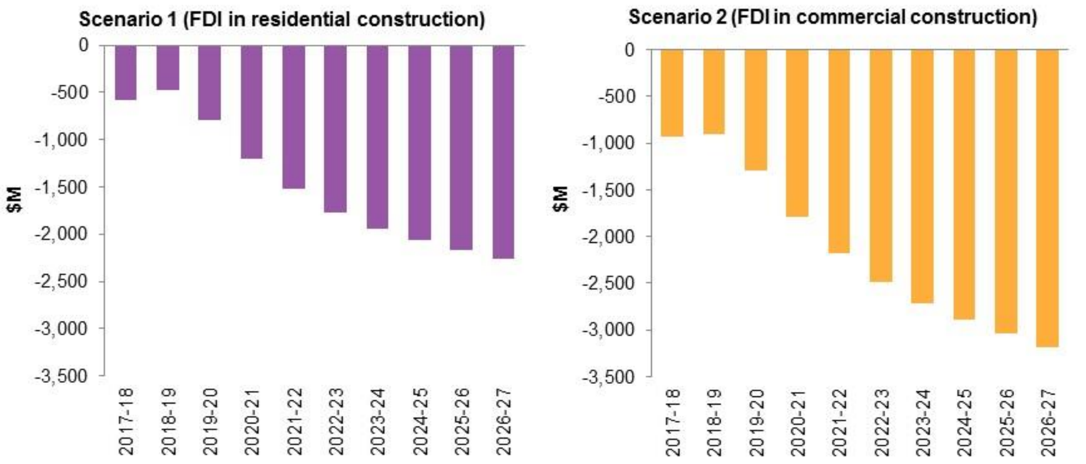
[16] The opposite of capital deepening.

total dollar value of all goods and services produced over a specific time period. It can be thought of as the size of the economy.

The projected changes in real GDP for Scenario 1 and 2 are presented in Figure 5.2 (which shows the year on year impacts of the scenarios) and Table 5.1 (which shows the cumulative impacts of the scenarios and the impact in year 10 of the simulation[17]).

As show in Figure 5.2, reducing the amount of foreign investment inflows for development of new residential dwellings and commercial buildings is projected to reduce Australia's real GDP.

FIGURE 5.2 PROJECTED CHANGE IN REAL GDP UNDER SCENARIOS 1 AND 2, RELATIVE TO THE REFERENCE CASE (2016-17 A$M)



SOURCE: ACIL ALLEN CONSULTING MODELLING.

TABLE 5.1 PROJECTED CHANGE IN REAL GDP UNDER SCENARIOS 1 AND 2, RELATIVE TO THE REFERENCE CASE

	Cumulative change (2017-18 to 2026-27)		Change in year 10 (2026-27)	
	Total	PV (@ 4%)	Level	Per cent
	2016-17 A$m	2016-17 A$m	2016-17 A$m	%
Scenario 1 (FDI in residential construction)	-14,781	-11,874	-2,259	-0.09
Scenario 2 (FDI in commercial construction)	-21,401	-17,285	-3,181	-0.13

Note: PV = present value. Net present values are calculated using a real discount rate of 4 per cent.

SOURCE: ACIL ALLEN CONSULTING MODELLING.

Foreign investment in real estate increases the amount of capital available for investment in the economy and provides a stimulus to the residential and non-residential construction industries. In addition to resulting in additional homes, offices and other commercial buildings, an increase in construction activity increases demand for labour and for goods and services from sectors supplying construction services and materials. This increased economic activity flows through the economy, boosting Australia's overall economic output. Hence, a reduction in foreign investment inflows into the economy has the opposite effect, resulting in a decline of economic activity in the country. For example, economic modelling shows the following.

[17] 10 years is a reasonable proxy for the long run impacts of the simulated scenario as in the model both the labour and capital markets return to their long-run equilibrium after 10 years.

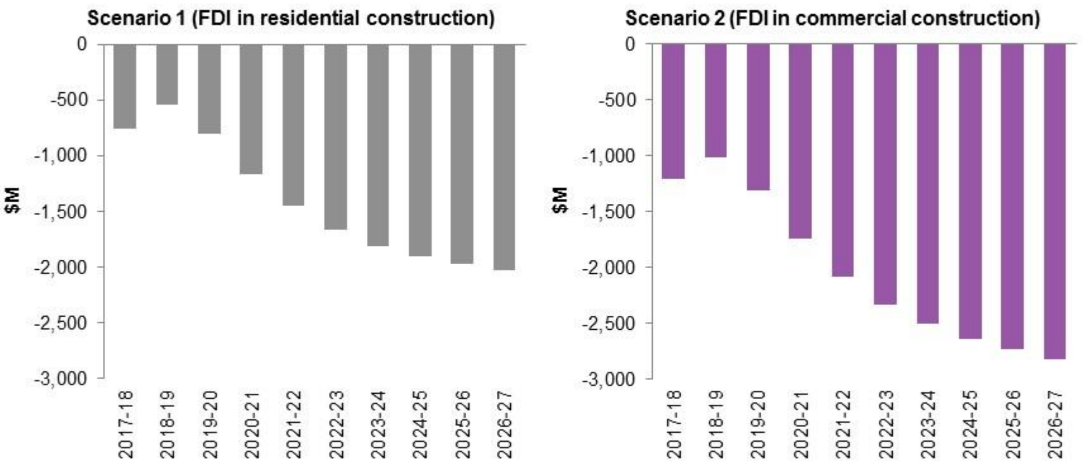
— A 20 per cent reduction in foreign investment inflows for development of new residential dwellings would:
  – reduce Australia's economic output (i.e. real GDP) by a cumulative total of $14.8 billion over 10 years (with a present value of $11.9 billion)
  – result in real GDP being 0.09 per cent (or $2.3 billion) lower in 2026-27. This loss in GDP is equivalent to more than three times the gross value added (GVA) of Australia's renewable electricity generation industry in the same year ($706 million) [18].

— A 20 per cent reduction in foreign investment inflows for development of new commercial buildings would:
  – reduce Australia's real GDP by a cumulative total of $21.4 billion over 10 years (with a present value of $17.3 billion)
  – result in real GDP being 0.13 per cent (or $3.2 billion) lower in 2026-27. This estimated loss is equivalent to almost the total GVA of Australia's coal-fired electricity generation industry in the same year ($3.4 billion).

5.3 Real income

Real income is a measure of the ability to purchase goods and services, adjusted for inflation. A rise in real income indicates a rise in the capacity for current consumption, but also an increased ability to accumulate wealth in the form of financial and other assets. The change in real income is a measure of the change in the economic welfare of the residents of an economy. The projected changes in real income for Scenarios 1 and 2 are presented in Figure 5.3 and Table 5.2.

FIGURE 5.3 PROJECTED CHANGE IN REAL ECONOMIC INCOME UNDER SCENARIOS 1 AND 2, RELATIVE TO THE REFERENCE CASE (2016-17 A$M)



SOURCE: ACIL ALLEN CONSULTING MODELLING.

As shown in Figure 5.3, the impact of reducing the amount of foreign investment inflows for development of new residential dwellings and commercial buildings follows a similar path to the change in real GDP — the impact is negative throughout the period. As noted above, a reduction in foreign investment in real estate would decrease economic activity in the construction sector, which would in turn reduce demand for labour in the construction sector and output and labour from other sectors in the economy that supply inputs to construction. Ultimately, the overall decrease in economic activity would reduce real income across the economy and have a negative effect on the capacity of Australians to consume goods and services and accumulate wealth.

[18] Industry Gross Value Added (GVA) measures the value of industry production. Industry GVA is the value of output less the value of intermediate inputs used in production and it is used to measure the contribution of individual industries to the gross product of a state or territory. Industry GVA is different to industry output, as output is principally a measure of an industry's sales or receipts, which include the value of intermediate inputs.

For example, it is projected that over the period 2017-18 to 2026-27 a 20 per cent reduction in foreign investment inflows for development of:

— residential dwellings would decrease the future real income of Australians by a cumulative total of $14.1 billion (with a PV of $11.4 billion)
— commercial buildings would decrease the future real income of Australians by a cumulative total of $20.4 billion (with a PV of $16.6 billion).

To place the projected changes in real income in perspective, the value today of the whole-of-life impact[19] of a 20 per cent reduction in foreign investment inflows for real estate development is equivalent to decreasing the average income of all current residents of Australia by approximately:

— $470 per person under Scenario 1
— $680 per person under Scenario 2.

TABLE 5.2 PROJECTED CHANGE IN REAL INCOME UNDER SCENARIOS 1 AND 2, RELATIVE TO THE REFERENCE CASE

	Cumulative change (2017-18 to 2026-27)		Change in year 10 (2026-27)	
	Total	PV (@ 4%)	Level	Per cent
	2016-17 A$m	2016-17 A$m	2016-17 A$m	%
Scenario 1 (FDI in residential construction)	-14,112	-11,420	-2,031	-0.086
Scenario 2 (FDI in commercial construction)	-20,416	-16,628	-2,827	-0.12

Note: PV = present value. Net present values are calculated using a real discount rate of 4 per cent.
SOURCE: ACIL ALLEN CONSULTING MODELLING.

5.4 Real wages and employment

A key issue when estimating the impact of a policy or project is determining how the labour market will clear.[20] Typically there are two extreme choices:

— a fully constrained labour market where there will be no change in employment relative to the reference case and real wages adjust
— a fully unconstrained labour market where the supply of labour (at the reference case wage rates) is fully responsive to changes in demand

For the purposes of this analysis, a hybrid approach has been chosen whereby real wages are assumed to be unchanged initially, but where the unemployment rate in the long-term is unchanged relative to the reference case. Hence, under this approach, the unemployment rate increases relative to the reference case in the first few years in response to changes in the demand for labour but over time, lower real wages gradually help employment move back to reference case levels.

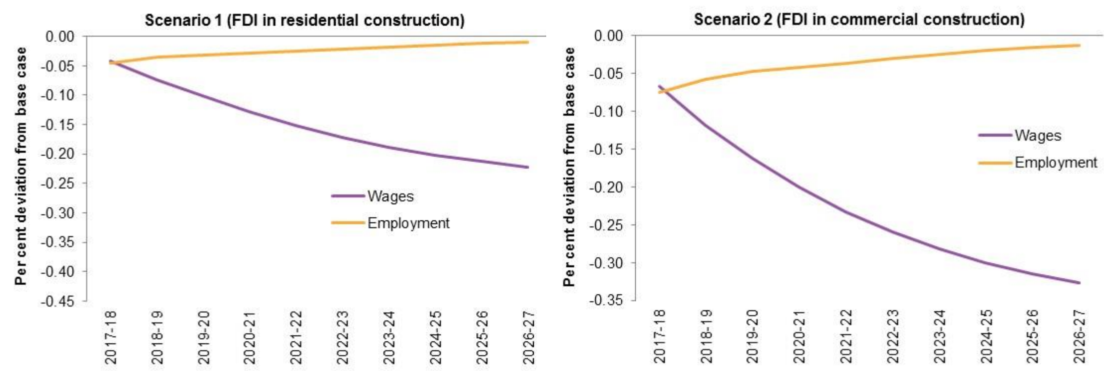
The impacts of the modelled reductions in the amount of foreign investment inflows for development of new residential dwellings and commercial buildings on employment and wages are shown in Figure 5.4. As shown in this chart, lower capital inflows and investment would result in lower employment and real wages across Australia. Reductions in foreign investment inflows for development of real estate would decrease domestic demand of goods and services through reduced activity in the construction sector. The construction sector is a major employer, and hence reduced demand for construction services would have second round effects through the economy in terms of employment and consumption. Indeed, as shown in Table 5.3, over the period 2017-18 to 2026-27 a 20 per cent reduction in foreign investment inflows for development of:

[19] That is, the discounted present values using a 4 per cent real discount rate.
[20] As with other CGE models, the standard assumption within VURM is that all markets clear (i.e. demand equals supply) at the start and end of each time period, including the labour market. CGE models place explicit limits on the availability of factors and the nature of the constraints can greatly change the magnitude and nature of the results. In contrast, most other tools used to assess economic impacts, including I-O multiplier analysis, do not place constraints on the availability of factors. Consequently, these tools tend to overestimate the impacts of a project or policy.

— residential dwellings would decrease employment across Australia by around 26,341 employee years of Full Time Equivalent (FTE) jobs.[21] This is equivalent to losing around 2,634 FTE jobs per year

— commercial buildings would decrease total employment by around 24,423 employee years of FTE jobs. This is equivalent to losing around 2,442 FTE jobs per year.

FIGURE 5.4 PROJECTED CHANGE IN EMPLOYMENT AND WAGES (PER CENT DEVIATIONS) UNDER SCENARIOS 1 AND 2, RELATIVE TO THE REFERENCE CASE



SOURCE: ACIL ALLEN CONSULTING MODELLING.

TABLE 5.3 PROJECTED EMPLOYMENT IMPACTS UNDER SCENARIOS 1 AND 2, RELATIVE TO THE REFERENCE CASE

	Total (2017-18 to 2026-27)	Average annual
	Employee years	FTE jobs
Scenario 1 (FDI in residential construction)	-26,341	-2,634
Scenario 2 (FDI in commercial construction)	-24,423	-2,442

Note: An employee year is employment of one full time equivalent (FTE) person for one year or, say, one 0.5 FTE person for two years.

SOURCE: ACIL ALLEN CONSULTING MODELLING.

The projected reductions in the demand for labour would lead to lower wages. It is estimated that, compared with the reference case, the modelled reductions in foreign investment inflows for development of real estate would lead to a decrease in the real wages of every employee in Australia of:

— 0.15 per cent on average over the period 2017-18 to 2026-27 under Scenario 1 (equivalent to a decrease of $123 for a person per year with an annual wage of $82,800[22])

— 0.23 per cent on average over the period 2017-18 to 2026-27 under Scenario 2 (equivalent to a decrease of $187 for a person per year with an annual wage of $82,800).

These lower level of real wages would reduce the incomes and living standards of Australians.

5.5 Foreign trade

Figure 5.5 and Table 5.4 show the projected changes in net foreign trade (goods and services) due to the modelled reductions in foreign investment inflows for real estate development. As shown in Figure 5.5, it is projected that real exports would increase under the two modelled scenarios. This is because lower capital inflows would reduce foreigners' purchases of Australian currency, which would reduce the exchange rate and consequently provide a boost to export volumes. Over time, the exchange rate is reduced until the lower capital inflows are matched by fewer importers selling Australian currency and more exporters buying Australian currency.

[21] An employee year is employment of one full time equivalent (FTE) person for one year or, say, one 0.5 FTE person for two years.
[22] According to the ABS, the full-time adult average weekly total earnings as at November 2016 is $1,592.40.

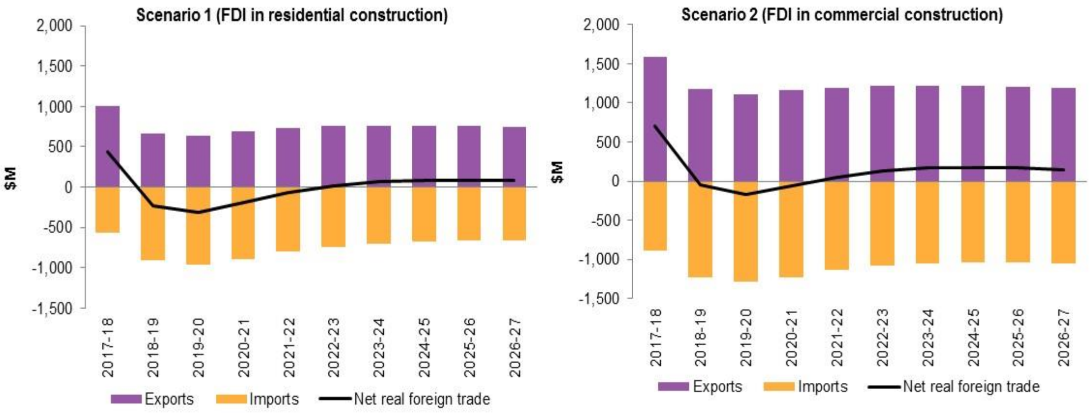
The decrease in imports is principally due to decreased consumption of foreign goods and services associated with lower incomes and a reduction in purchasing power.

In net terms, over the period 2017-18 to 2026-27 Australia is projected to have:

— a small trade deficit under Scenario 1 of a total of -$54 million (with a PV of -$73 million) as total imports over the period are slightly higher than exports

— a trade surplus under Scenario 2 of a total of $1,248 million (with a PV of $1073 million) as additional exports in this scenario more than offset the additional imports.

FIGURE 5.5 PROJECTED CHANGE IN REAL NET FOREIGN TRADE (GOODS AND SERVICES), UNDER SCENARIOS 1 AND 2, RELATIVE TO THE REFERENCE CASE (2016-17 A$M)



SOURCE: ACIL ALLEN CONSULTING MODELLING.

In particular, it is projected that over the period 2017-18 to 2026-27, a 20 per cent reduction in foreign investment inflows for real estate development would have the following trade impacts.

— Under Scenario 1 (residential dwellings), the reduction in foreign investment inflows would lead to:
  – an increase in real exports by a cumulative total of $7.5 billion (with a PV of $6.36 billion)
  – a decrease of real imports by a cumulative total of $7.6 billion (with a PV of $6.44 billion).

— Under Scenario 2 (commercial buildings), the reduction in foreign investment inflows would lead to:
  – an increase in real exports by a cumulative total of $12.3 billion (with a PV of $10.4 billion)
  – a decrease of real imports by a cumulative total of $11.0 billion (with a PV of $9.3 billion).

TABLE 5.4 PROJECTED CUMULATIVE CHANGE IN FOREIGN TRADE UNDER SCENARIOS 1 AND 2, RELATIVE TO THE REFERENCE CASE

	Total (2017-18 to 2026-27)	PV (@ 4%)
	2016-17 A$m	2016-17 A$m
Scenario 1 (FDI in residential construction)		
Exports	7,526	6,364
Imports	-7,580	-6,437
Net real foreign trade	-54	-73
Scenario 2 (FDI in commercial construction)		
Exports	12,283	10,407
Imports	-11,035	-9,334
Net real foreign trade	1,248	1,073

Note: Net present values are calculated using a real discount rate of 4 per cent.

SOURCE: ACIL ALLEN CONSULTING MODELLING.

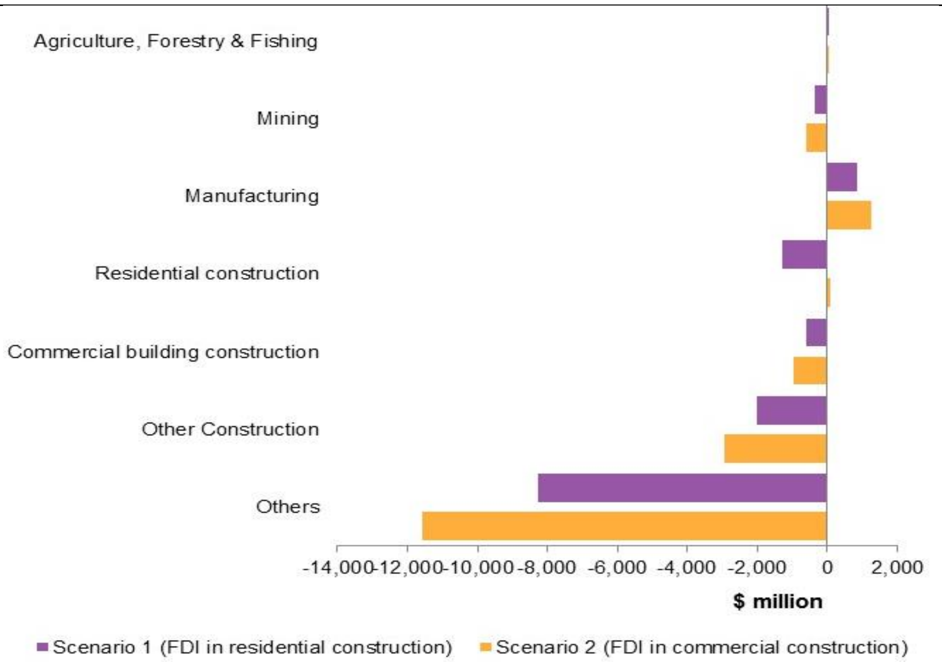
5.6 Industry impacts

Figure 5.6 and Table 5.5 present the projected change in real output by industry due to a 20 per cent reduction in foreign investment inflows for development of residential and commercial real estate. Real output is a measure of an industry's sales, which can include sales to final users in the economy or sales to other industries (intermediate inputs). Real output by industry is different to the change in real economic output for the economy as a whole (i.e. GDP). Real output is measured as the change in production of an industry excluding any price changes. Adding across industries double counts any sales by one business in the economy that are an input into other businesses. In contrast, real economic output at the economy-wide level removes any double counting by adding just the value added by each business (along with other taxes) and hence, is a better measure of the production of goods and services by the economy as a whole. Value added consists of compensation of employees, taxes on production and imports, less subsidies, and gross operating surplus. Value added does not include intermediate inputs.

As shown in Figure 5.6 and Table 5.5, most industries across Australia (except for manufacturing) would experience a decline in output as a result of the reductions in foreign investment inflows for real estate development. Not surprisingly, the biggest losses are concentrated in the construction sector (including in the residential, commercial building and other construction services sectors) and in sectors that are heavy users of commercial real estate (typically the services sectors of the economy). The overall decrease in production in these industries is mainly due to direct reductions in foreign investment, which lead to a reduction in domestic demand for output from these sectors.

The only industries in Australia that are projected to increase output are the manufacturing and the agriculture, forestry and fishing sectors to a small extent. For both sectors, the reduction in foreign investment inflows for real estate development and subsequent reductions in the exchange rate lead to a higher export performance and hence, demand for their output.

FIGURE 5.6 TOTAL PROJECTED CHANGE IN INDUSTRY OUTPUT (2017-18 TO 2026-27), UNDER SCENARIOS 1 AND 2, RELATIVE TO THE REFERENCE CASE (2016-17 A$M)



Note: Others include: Electricity, Gas, Water and Waste Services; Wholesale Trade; Retail Trade; Accommodation and Food Services; Ownership of Dwellings, Transport, Postal and Warehousing; Information Media and Telecommunications; Financial and Insurance Services; Rental, Hiring and Real Estate Services; Professional, Scientific and Technical Services; Administrative and Support Services; Public Administration and Safety; Education and Training; Health Care and Social Assistance; Arts and Recreation Services; Other Services.

SOURCE: ACIL ALLEN CONSULTING MODELLING.

TABLE 5.5 PROJECTED CUMULATIVE CHANGE IN INDUSTRY OUTPUT UNDER SCENARIOS 1 AND 2, RELATIVE TO THE REFERENCE CASE (2016-17 A$M)

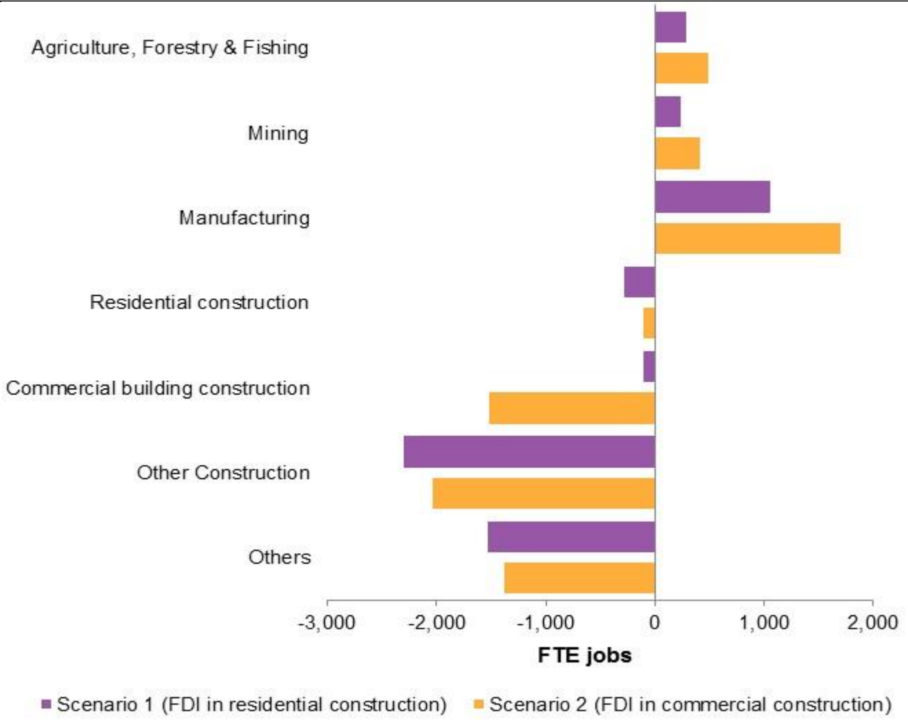
	Scenario 1 (FDI in residential construction)		Scenario 2 (FDI in commercial construction)	
	Total (2017-18 to 2026-27)	PV (@ 4%)	Total (2017-18 to 2026-27)	PV (@ 4%)
Agriculture, Forestry & Fishing	20	24	42	47
Mining	-367	-275	-583	-434
Manufacturing	877	773	1,263	1,093
Residential construction	-1,292	-1,083	101	53
Commercial building construction	-605	-511	-971	-820
Other construction and construction services	-2,014	-1,685	-2,950	-2,475
Others	-8,249	-6,578	-11,562	-9,248

Note: Others include: Electricity, Gas, Water and Waste Services; Wholesale Trade; Retail Trade; Accommodation and Food Services; Ownership of Dwellings, Transport, Postal and Warehousing; Information Media and Telecommunications; Financial and Insurance Services; Rental, Hiring and Real Estate Services; Professional, Scientific and Technical Services; Administrative and Support Services; Public Administration and Safety; Education and Training; Health Care and Social Assistance; Arts and Recreation Services; Other Services.

SOURCE: ACIL ALLEN CONSULTING MODELLING.

Employment across different industries would also experience changes under the modelled scenarios as resources (in this case labour) are reallocated across different sectors (see Figure 5.7).

FIGURE 5.7 PROJECTED CHANGE IN INDUSTRY EMPLOYMENT UNDER SCENARIOS 1 AND 2, RELATIVE TO THE REFERENCE CASE (FTE JOBS)



Note: Others include: Electricity, Gas, Water and Waste Services; Wholesale Trade; Retail Trade; Accommodation and Food Services; Ownership of Dwellings, Transport, Postal and Warehousing; Information Media and Telecommunications; Financial and Insurance Services; Rental, Hiring and Real Estate Services; Professional, Scientific and Technical Services; Administrative and Support Services; Public Administration and Safety; Education and Training; Health Care and Social Assistance; Arts and Recreation Services; Other Services.

SOURCE: ACIL ALLEN CONSULTING MODELLING.

A reduction in foreign investment for real estate development would reduce domestic demand in the construction industry, and, in turn, employment in this sector and related upstream and downstream sectors. Indeed, as shown in Table 5.6, over the period 2017-18 to 2026-27 a 20 per cent reduction in foreign investment inflows for real development of:

— residential dwellings would decrease employment in the:
  – residential construction sector by around 2,872 employee years of FTE jobs. This is equivalent to losing around 287 FTE jobs per year
  – commercial building construction sector by around 1,055 employee years. This is equivalent to losing around 105 FTE jobs per year
— commercial buildings would decrease employment in the:
  – commercial building construction sector by around 15,165 employee years. This is equivalent to losing around 1,517 FTE jobs per year
  – residential construction sector has minimal impact by around 1,050 employee years. This is equivalent to losing around 105 FTE jobs per year.

Employment in other non-construction related sectors of the economy (except for the 'Others' sector) follows the reallocation of economic activity (output) to different sectors of the economy. The 'Others' sector (which includes mostly services sectors) is the largest sector in the economy (accounting for almost 80 per cent of output and employment) and, as well as being the largest consumer of commercial real estate, forms the majority of private consumption. Consequently, this sector is projected to experience large impacts in absolute terms, but it should be noted that the projected impact represents less than 0.05 per cent change.

TABLE 5.6 PROJECTED CUMULATIVE CHANGE IN INDUSTRY EMPLOYMENT UNDER SCENARIOS 1 AND 2, RELATIVE TO THE REFERENCE CASE

	Scenario 1 (FDI in residential construction)		Scenario 2 (FDI in commercial construction)	
	Total (2017-18 to 2026-27)	Average annual	Total (2017-18 to 2026-27)	Average annual
	Employee years	FTE jobs	Employee years	FTE jobs
Agriculture, Forestry & Fishing	2,907	291	4,891	489
Mining	2,422	242	4,137	414
Manufacturing	10,577	1,058	16,935	1,693
Residential construction	-2,872	-287	-1,050	-105
Commercial building construction	-1,055	-105	-15,165	-1,517
Other construction and construction services	-23,051	-2,305	-20,382	-2,038
Others	-15,272	-1,527	-13,788	-1,379

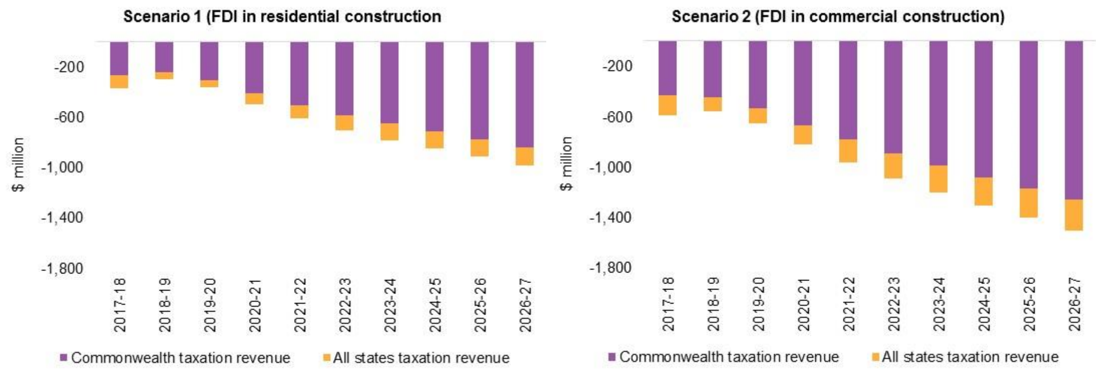
Note: Others include: Electricity, Gas, Water and Waste Services; Wholesale Trade; Retail Trade; Accommodation and Food Services; Transport, Postal and Warehousing; Information Media and Telecommunications; Financial and Insurance Services; Rental, Hiring and Real Estate Services; Professional, Scientific and Technical Services; Administrative and Support Services; Public Administration and Safety; Education and Training; Health Care and Social Assistance; Arts and Recreation Services; Other Services. Aggregate FTE employment may not sum to zero due to differing average hours worked by industry.

SOURCE: ACIL ALLEN CONSULTING MODELLING.

5.7 Government revenues

Table 5.7 provides a summary of the anticipated total reduction in commonwealth and states' tax revenues as a result of the modelled changes in foreign real estate investment inflows. Figure 5.8 presents the changes in the revenue streams through time.

FIGURE 5.8 PROJECTED CHANGE IN GOVERNMENT REVENUE, UNDER SCENARIOS 1 AND 2, RELATIVE TO THE REFERENCE CASE (2016-17 A$M)



SOURCE: ACIL ALLEN CONSULTING MODELLING.

Figure 5.8 and Table 5.7**,** government revenues (both federal and state) would be reduced significantly as a result of the modelled reductions in foreign investment inflows into real estate development. In particular, it is projected that over the period 2017-18 to 2026-27 a 20 per cent reduction in foreign investment inflows for real estate development would have the following impacts on government revenue.

— Under Scenario 1 (residential dwellings), the reduction in foreign investment inflows would lead to:
  – a decrease in Commonwealth Government revenues by a total of $5.3 billion (with a PV of $4.3 billion)
  – a decrease in revenues of all state governments by a total of $1.1 billion (with a PV of $886 million).
— Under Scenario 2 (commercial buildings), the reduction in foreign investment inflows would lead to:
  – a decrease in Commonwealth Government revenues by a total of $8.3 billion (with a PV of $6.7 billion)
  – a decrease in revenues of all state governments by a total of $1.9 billion (with a PV of $1.5 billion).

The Australian Government is projected to experience significant losses in revenue in both scenarios. The major drivers of these impacts are losses in revenue from:

— income taxes levied on individuals (which represent around two thirds of the lost revenue) due to a reduction in overall employment and wages
— GST (which represent around a quarter of the lost revenue) due to a reduction in people's incomes and consumption.

Given the current Commonwealth's substantial budgetary challenge, the projected decreases in tax revenues from reduced foreign investment inflows for real estate development would have a significant negative impact to the challenging fiscal outlook of government.

TABLE 5.7 PROJECTED CUMULATIVE CHANGE IN GOVERNMENT REVENUE UNDER SCENARIOS 1 AND 2, RELATIVE TO THE REFERENCE CASE

	Total (2017-18 to 2026-27)	PV (@ 4%)
	2016-17 A$m	2016-17 A$m
Scenario 1 (FDI in residential construction)		
Commonwealth taxation revenue	-5,300	-4,278
All state taxation revenues	-1,079	-886
Scenario 2 (FDI in commercial construction)		
Commonwealth taxation revenue	-8,251	-6,691
All state taxation revenues	-1,846	-1,520

Note: Net present values are calculated using a real discount rate of 4 per cent.
SOURCE: ACIL ALLEN CONSULTING MODELLING.

6 MYTHS SURROUNDING FOREIGN INVESTMENT IN AUSTRALIAN REAL ESTATE

This chapter discusses common arguments and misconceptions surrounding foreign investment in Australian real estate.

6.1 Myth 1: foreign investors are buying existing dwellings

A story often heard about foreign investors is that foreign investors buy existing dwellings. This story is often immersed with tales about foreigners out-bidding domestic buyers at auctions.[23] However, there are several issues with this viewpoint.

First, as discussed in Chapter 3, the Australian Government's policy is to channel foreign investment into new dwellings. Foreign investment applications are therefore generally considered in light of the overarching principle that the proposed investment should increase Australia's housing stock (by creating at least one new additional dwelling).

In light of this, FIRB rules do not allow foreign investors to buy existing dwellings, except for:

- foreign residents who are purchasing an existing dwelling for redevelopment and will replace it with two or more dwellings
- temporary residents who can apply to purchase one established dwelling to use as a residence while they live in Australia subject to the conditions that they:
  - use the property as their principal place of residence in Australia
  - do not rent any part of the property, including ensuring that it is vacant at settlement; and
  - sell the property within three months from when it ceases to be their principal place of residence.

Temporary residents are not permitted to purchase established dwellings as investment properties, to rent out or as holiday homes.

Of course, rules can be broken, and sometimes, contrary to the rules, foreign persons do buy established dwellings. However, when these unlawful purchases are detected, foreign buyers are forced to sell. According to the Australian Treasury (2017), since the Government transferred responsibility for compliance with the foreign investment policy to the ATO in May 2015, ATO has detected more than 570 foreign nationals who have breached the rules. This has resulted in:

- forced sales
- self-disposals (36 foreign nationals sold properties during the course of ATO investigations)

[23] A recent example of the genre is this story about Chinese buyers at auctions in Toorak in Melbourne: http://www.afr.com/real-estate/residential/vic/chinese-property-buyers-back-in-melbournes-top-end-20170317-gv0cav. Of course, observers at auctions have no way of knowing whether the people bidding and buying have Australian residency status.

— variations to previously approved FIRB applications

— retrospective approvals with strict conditions (ATO has issued 388 penalty notices to foreign nationals in breach of the rules. These notices have been issued to people who have failed to obtain FIRB approval before buying property, as well as for breaching a condition of previously approved applications).

While many investigations have been carried out, the number of forced sales of illegally acquired dwellings to date is very small (a total of 61 since 2013, with a combined value of $107 million – Australian Treasury, 2017) when compared to the number of residential sales across Australia over the same period (more than 2 million over 2013-2016).

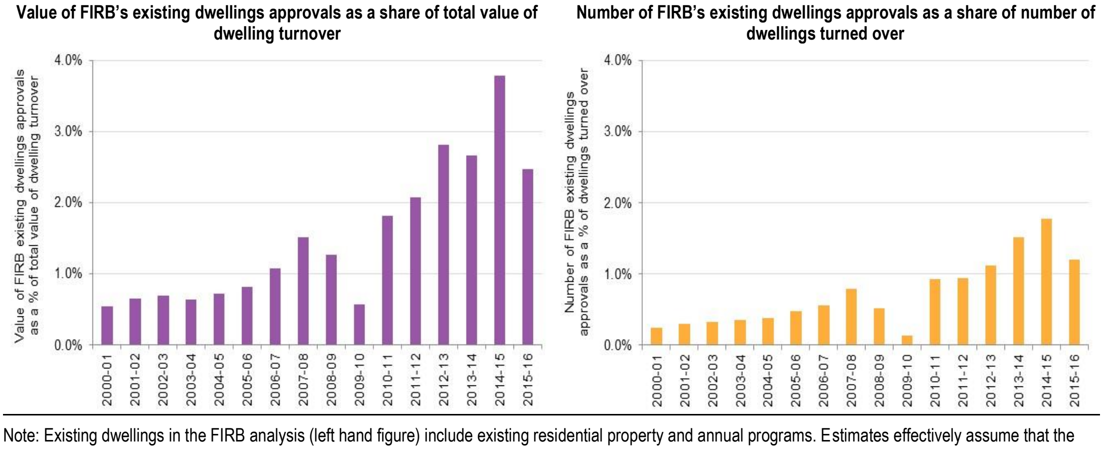
It might be still be argued that the number of forced sales is small only because the rules are not well enforced. However, this is spurious. There is no robust data that proves that ineligible foreigners are buying existing dwellings in large numbers.

The unsubstantiated assertions about foreign purchases then feeds perception. The key question is whether these perceptions are in line with actual purchases. By definition, unlawful purchases are not recorded in official data. However, the existing data about the *upper limit* on lawful purchases of existing dwellings by foreigners show that perceptions about what is happening in the market are significantly overstated.

The analysis in Chapter 4 found that over the last fifteen years, there has been a small increase in the value of approvals to purchase existing dwellings, although these approvals remain only around 2.5 per cent of the total value of housing turnover in 2015-16 (and around 1.2 per cent of the total number of residential properties sold in Australia) (see Figure 6.1).[24] In contrast, according to the NAB Residential Property Survey (NAB 2016), property professionals estimated that foreign buyers accounted for around 7.2 per cent of total demand of existing properties for the second quarter of 2016 (down from 8.6 per cent a year earlier).

Perceptions of demand for existing properties by foreigners is not the same as actual demand, which in turn is not the same as actual sales. What we have is a myth being fed by anecdote and perception. There is no reason to believe the myth and the available data says that it is false.

FIGURE 6.1 FIRB'S EXISTING DWELLINGS APPROVALS AS A SHARE OF TOTAL VALUE OF DWELLING TURNOVER (LEFT) AND AS A SHARE OF TOTAL NUMBER OF PROPERTIES TURNED OVER (RIGHT)



Note: Existing dwellings in the FIRB analysis (left hand figure) include existing residential property and annual programs. Estimates effectively assume that the year in which an approval is made by the FIRB aligns with the years that the consequent dwellings are sold.

SOURCE: ACIL ALLEN BASED ON FIRB AND CORELOGIC DATA.

6.2 Myth 2: foreign investors are buying up all new housing stock

Another often heard myth is that foreign investors are buying all the new housing stock. It is true that under FIRB rules, foreign investors are permitted to buy new housing stock – and for good reason.

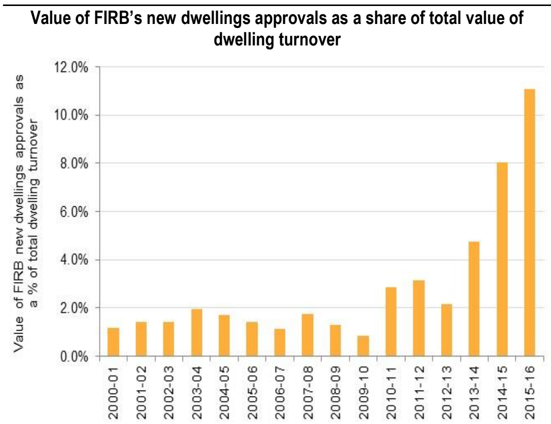
[24] And this is an upper limit given that the FIRB data can lead to double, or multiple, counting of sales of a dwelling to foreigners.

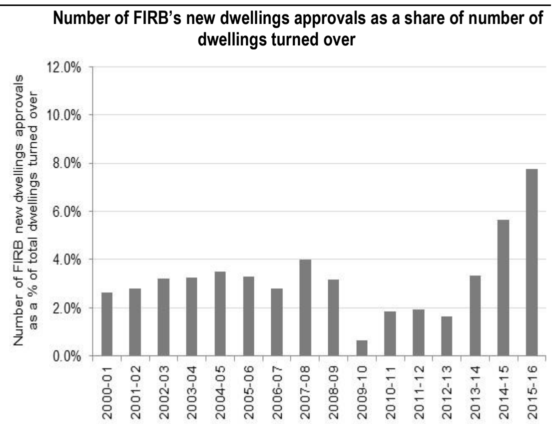
This foreign capital pays for new dwellings to be built, which provides shelter for Australians as well as a significant boost to the economy, as the modelling reported in Chapter 5 shows.

The perception that foreign investors are buying up *all* the new housing stock is clearly false. However, the proportion of approvals for purchases of new dwellings as a share of total dwelling turnover has significantly increased in recent years. Our analysis in Chapter 4 found that while these approvals fluctuated around 1-3 per cent over the 2000-01 to 2012-13 period, they reached 11 per cent in 2015-16 (and around 7.8 per cent of the total number of residential properties sold in Australia) (see Figure 6.2). This figure is in line with the views of property professionals in the NAB Residential Property Survey, who estimated that foreign buyers accounted for around 10.4 per cent of total demand of new properties for the second quarter of 2016 (down from 12.8 per cent a year earlier).

The conclusion from this analysis is that foreign investment in new dwellings *has* indeed increased significantly over time (a trend that is very good for the economy, because foreigners' money leads to more new dwellings being built), but it represents *at most* only about 11 per cent of the value of total dwelling turnover.

FIGURE 6.2 FIRB'S NEW DWELLINGS APPROVALS AS A SHARE OF TOTAL VALUE OF DWELLING TURNOVER (LEFT) AND AS A SHARE OF TOTAL NUMBER OF PROPERTIES TURNED OVER (RIGHT)





Note: New dwellings include completed new dwellings, both individual purchases and developer 'off-the-plan' (adjusted for conversions from approval to purchase and for the average number of dwellings per development). Estimates effectively assume that the year in which an approval is made by the FIRB aligns with the years that the consequent dwellings are sold.

SOURCE: ACIL ALLEN BASED ON FIRB AND CORELOGIC DATA.

6.3 Myth 3: foreign investors leave homes vacant

A particularly pernicious myth is that *foreign investors* leave homes vacant, thereby creating a shortage of housing supply. The argument is that foreign investors only care about capital gains on their properties, not at all about rental income and so leave their investment properties vacant.

This myth conflates what might or might not be a problem (vacant homes) with a completely unfounded conclusion that the problem, if it exists, is caused by foreign investors.

In fact, there is only very limited data about vacant dwellings in Australia. Much of the momentum for believing that there is a high number of homes vacant appears to have come from a report from Prosper Australia (2015). This report used water consumption data in some parts of Melbourne in 2014 to conclude that 4.8 per cent of dwellings in all of Melbourne were vacant.

Prosper Australia's methodology and conclusions are flawed for a number of reasons. Dwellings can be vacant for reasons that have nothing to do with speculative investment; it is unsound to make conclusions about all of Melbourne on the basis of a non-random sample; and it is even more unsound to make conclusions about Australia from a partial sample of Melbourne.

Even if the methodology behind Prosper Australia's report is assumed to be robust, the data and analysis in this report does not include any information about the proportion of vacant dwellings that are foreign owned or about the tendency of foreign investors to leave dwellings vacant. It is impossible to tell from water consumption data whether a dwelling is owned by an Australian citizen or resident or a foreigner.

In summary, there is no evidence available that the problem of vacant properties, if it is a problem, is a problem that is caused by foreign investors.[25]

6.4 Myth 4: foreign investors do not pay their fair share of tax

A common misconception surrounding foreign investment in Australian real estate is that foreign investors do not pay their fair share of taxes.

In fact, foreign investors not only pay the same taxes that domestic buyers pay, but several other additional taxes — see Figure 6.3. As shown in this figure, foreign persons acquiring property in Australia not only pay FIRB fees for approval (which are paid currently *per application*, regardless of whether the asset is acquired or not, and sometimes paid several times if a foreign person does not buy the first property they applied for[26]), but also a range of other additional taxes on acquisition, during ownership and when selling their properties.

Foreign investors pay plenty of taxes. The notion that they do not is unfounded.

FIGURE 6.3 ADDITIONAL TAXES PAID BY FOREIGN PERSONS WHEN ACQUIRING REAL ESTATE IN AUSTRALIA (COMPARED TO DOMESTIC BUYERS)

	Additional taxes paid on acquisition	Additional taxes paid during ownership	Additional taxes paid on exit
Foreign persons acquiring a residential dwelling	• FIRB application fee (starts at $5,000 for residential property of less than $1 million) • Stamp duty surcharge – 7% in Victoria – 4% in NSW – 3% in Queensland	Land tax surcharge • 1.5% in Victoria • 0.75% in NSW	• Full capital gains tax (CGT) payable (no discount or main residence exemption) • If property value > $2 million, purchaser is required to withhold and remit to ATO 10% of the sale proceeds – the non-resident must lodge an Australian tax return and may claim a credit for the withholding amount.
Foreign owned developer purchasing land to build new dwellings	• FIRB application fee (depends on the number of dwellings that can be built on the land): – if >10, $10,100 – if < 10, fee is calculated based on the property value, starting from $5,000 for property < $1million • Stamp duty surcharge – 7% in Victoria (developer can seek exemption) – 4% in NSW – 3% in Queensland (developer can seek exemption)	Land tax surcharge • 1.5% in Victoria (developer can seek exemption) • 0.75% in NSW	• Full CGT payable (no discount or main residence exemption) • If property value > $2 million, purchaser is required to withhold and remit to ATO 10% of the sale proceeds – the non-resident must lodge an Australian tax return and may claim a credit for the withholding amount.
Foreign investors acquiring commercial real estate	• FIRB application fee – Vacant land - $10,100 – Non- vacant commercial land - $25,300	• If investment is held through an Australian managed investment trust (MIT), distributions are subject to 15% withholding tax on income and capital gains where the investor is from an "Exchange of Information" country, otherwise rate is 30%. • 1.5% land tax surcharge in Victoria (investors able to seek an exemption if they can demonstrate they have benefited the Victorian economy)	• Investments held directly by a foreign investor: – Full CGT payable (no discount or main residence exemption) – If property value > $2 million, purchaser is required to withhold and remit to ATO 10% of the sale proceeds – the non-resident must lodge an Australian tax return and may claim a credit for the withholding amount. • If investment is held through a MIT and the units in the MIT are sold, CGT is payable if: – the foreign investor held more than a 10% interest in the MIT at any time during the 24 months preceding the disposal; and – more than 50% of the market value of the MIT's assets consist of real property

Note: Figure is based on the tax arrangements current at the time of writing. The Australian Government's recent 2017 Budget seeks to amend some of these arrangements.

SOURCE: ACIL ALLEN CONSULTING BASED ON PROPERTY COUNCIL RESEARCH.

[25] Notably, the Victorian Government recently announced the introduction of a vacancy tax of one per cent of the capital value of dwellings left vacant for six months or longer. However, the Victorian Government does not appear to know how many properties will attract the tax, and the tax is not particularly aimed at foreign investors. More recently, the Australian Government's 2017 Budget introduced an annual vacancy charge on new foreign owners of residential property where the property is not occupied or genuinely available on the rental market for at least six months each year.

[26] This will no longer be the case under proposed changes in the recent Australian Government Budget 2017 which introduce two new Residential Exemption Certificates.

6.5 Myth 5: foreign investors will keep coming irrespective of the restrictiveness of the Australian investment framework

Another popular misconception is that foreign investors like Australia so much that they will keep coming irrespective of the restrictiveness of the Australian foreign investment framework. That is, it does not matter how challenging it is for them to invest, how unwelcome we make them feel and how much they are taxed on their investment earnings, they will keep on investing.

This is not true. While it is true that Australia is generally an attractive investment location because we have a stable political and economic environment, the legal system is transparent and fair and governments do not seize the assets of foreign investors unlawfully or indiscriminately, it is also true that foreigners have many countries to choose from, and they do not have to invest in Australia, in real estate or anything else. Tempting as it may be for some, for a country like Australia which relies on foreign investment because it does not generate enough domestic savings, it is very unwise to continuously try to deter foreign investment. If foreign investors as a whole decide that investing in Australia is more trouble than it is worth, then they will not invest here, and it will take a lot of time, effort and expense to bring them back.

This is especially true of real estate because (just about) every country has property that foreigners can buy. A salutary tale comes from Canada, where after the imposition of an additional property transfer tax of 15 per cent, sales to foreign investors 'plummeted'. The new tax took effect on all transactions from 2 August 2016 onwards and according to the Government of British Columbia, foreign purchases accounted for around 13.2 per cent of Metro Vancouver's total residential sales before the Province implemented the additional property transfer tax (Government of British Columbia, 2016a). However, according to provincial statistics, between 2 August 2016 and 31 October 2016, foreign purchasers were involved in only 1.7 per cent of Metro Vancouver residential property transactions (Government of British Columbia, 2016b).

Foreign investment in Australian real estate is a source of large economic benefit to Australia as shown in Chapter 2 and 5. Without it, we would not have access to all these benefits. As mentioned before, foreigners invest in Australia because its political, economic, legal and regulatory environment. However, foreign investors have the whole world to invest in. If the investment framework they have to deal with becomes unreasonable or oppressive, they will not keep coming. They will go elsewhere.

6.6 Myth 6: foreign investors push up dwelling prices

It is easy to see how the misconception that foreigners push up dwelling prices can take hold. After all, suppose at an auction for a (new) house the highest, winning bid, from a foreigner is $500,000 and the second highest bid, from a domestic resident is $490,000. Isn't it obvious that the foreign buyer has pushed up the price by $10,000?

However this is not the full story. Foreign buyers of real estate will make dwelling prices higher than they would otherwise be only if, on balance, they add more to dwelling demand than to dwelling supply. By definition buyers add to demand, but it also true that real estate developers add to the supply of dwellings in the knowledge that foreign buyers are part of the market.

Parsing out which way the balance lies requires a careful statistical study. Such a study was recently done by the Australian Treasury (2016b). Examining the Sydney and Melbourne markets, Treasury found that foreign investment adds between $80 and $122 to the price of a dwelling per quarter. Compared to the average quarterly price increase over the period of study of $12,800, the amount that foreign buyers add to prices is minor and may actually be better described as rounding error.

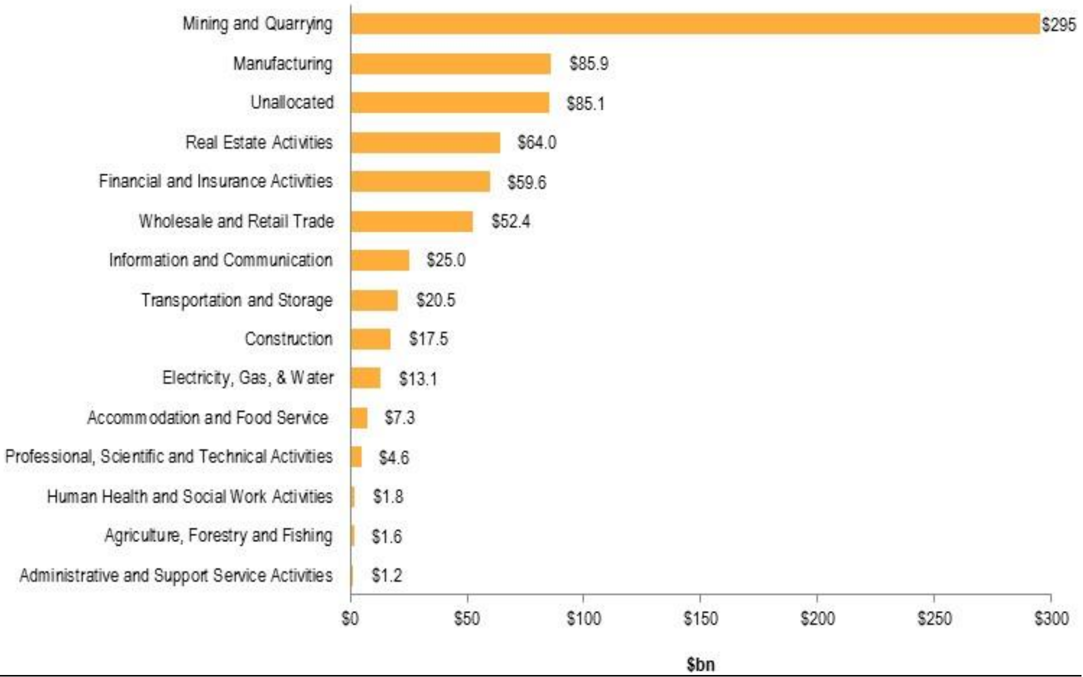
This is for the whole of Sydney and Melbourne. Foreign investment is not necessarily evenly spread in those cities and in certain post codes it might be the case that foreign investors add a measurable amount to dwelling prices. Or not, as the case may be. But overall, the notion that foreign investors add to dwelling prices is unfounded.

6.7 Myth 7: foreign investors only come to Australia to buy houses

A persistent myth is that foreign investors come to Australia only to buy houses. This myth is easily refuted.

— *Foreign persons invest in a range of industries across Australia* — as discussed in Chapter 4, ABS data on foreign investment shows that foreigners invest across the whole economy. As shown in Figure 6.4, in 2015, the total stock of foreign direct investment in the economy was $735 billion across many assets other than housing.[27] Furthermore, it is desirable and important for foreigners to invest in a country like Australia, which has many investment opportunities but a relatively small population and a relatively small domestic savings pool.

FIGURE 6.4 FOREIGN DIRECT INVESTMENT STOCK IN AUSTRALIA BY INDUSTRY (ANZSIC) ($ BILLION), 2015



Note: The ABS derives data on real estate investment via businesses surveys. However, where foreign investors own real estate directly without investing through an Australian corporate structure, there is no Australian resident to survey. The value of this investment is modelled based on investment intentions collected from FIRB, media reports and industry-specific periodicals (Australian Treasury 2016a).

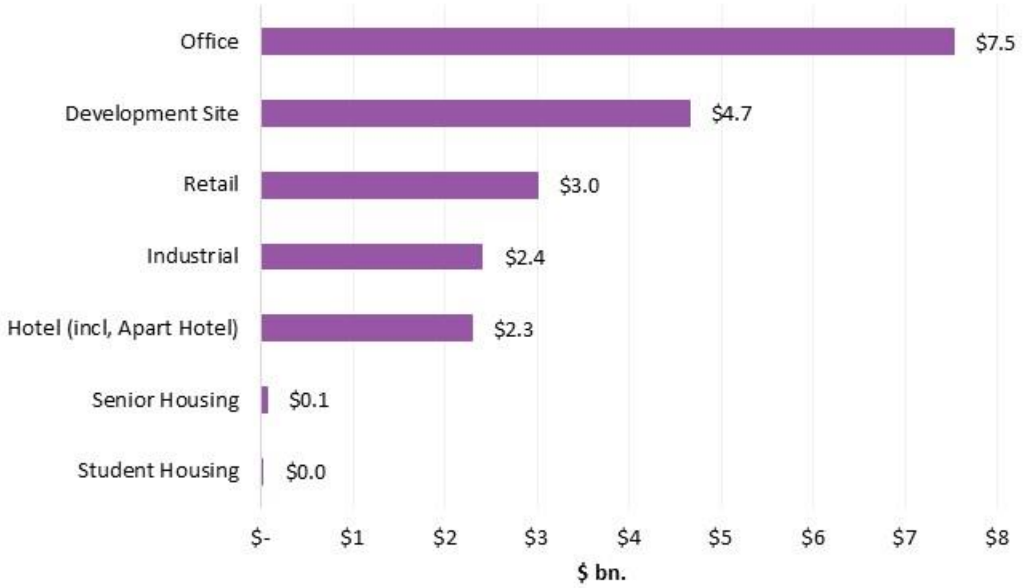
SOURCE: ABS (2016), 53520 - INTERNATIONAL INVESTMENT POSITION, AUSTRALIA: SUPPLEMENTARY STATISTICS, 2015.

[27] Notably, this data refers to foreign direct investment by different industry sectors as compiled by the ABS. As noted before, this data is different to foreign investment approval data from FIRB and both sets are not comparable and cannot be reconciled. The ABS provides statistics on Australia's international investment position using balance of payment data (so it does not trace the investment back to its original source), while FIRB does not measure total foreign investments made, nor does it measure changes in net foreign ownership levels. Furthermore, as a consequence of the methodology used to collect and compile their estimates, ABS statistics into the level of foreign direct investment in real estate activities do not provide a complete picture of foreign investment in real estate, either at the total level, or the split between residential and commercial real estate.

— *Within the real estate sector, foreign persons invest in a range of assets* — as discussed in Chapter 4 and shown in Figure 6.5, besides investing in residential dwellings, foreigners invest around $20 billion per annum across a number of commercial assets in Australia, including:

- office buildings
- industrial buildings
- retail buildings
- hotels
- senior housing
- student housing
- commercial developments.

FIGURE 6.5 FOREIGN INVESTMENT IN COMMERCIAL REAL ESTATE IN AUSTRALIA, 2016 ($M)



Note: Data includes all transactions above $5 million USD.

SOURCE: ACIL ALLEN BASED ON REAL CAPITAL ANALYTICS DATA.

7

HOW DOES AUSTRALIA'S FOREIGN INVESTMENT FRAMEWORK COMPARE?

Australia competes globally for long term capital, and as such, it is critical that it offers a competitive and robust investment framework to attract foreign investment. As discussed in Chapter 6, foreign investors do not lack choices, and will factor complexity and profitability risk into their investment decisions. Even the best domestic investment opportunity will find it harder to attract investors if the tax regime is overly complex and/or out of step with Australia's competing nations.

This chapter compares Australia's investment framework with that of other major economies, including comparing:[28]

- any additional taxes payable by:
  - foreign persons purchasing residential dwellings
  - foreign owned developers purchasing land to build new dwellings
  - foreign capital investing in commercial real estate
- any additional regulatory or compliance approval and processes applicable to the above type of investors.

The countries included in these comparisons are Canada, New Zealand, Singapore, United Kingdom and United States.

7.1.1 Purchases of residential dwellings

Comparisons of the taxes and approval/compliance processes for foreign persons purchasing residential dwellings between countries are summarised in Table 7.1.

As shown in Table 7.1, Australia has much more stringent policies and controls for foreign acquisitions of residential dwellings than other key competing markets. Indeed, foreign individuals purchasing residential dwellings have to always seek approval for investing, whereas the gatekeeper function that FIRB performs is much less prevalent in other markets. In addition, foreign investors in Australia pay a number of additional taxes (in addition to the usual property taxes) when acquiring, divesting or during ownership of the asset. Only Canada has similar taxation arrangements. Finally, Australia is the only country in this group of nations that forbids foreign investors from purchasing existing dwellings.

[28] This analysis is based on research conducted by the Property Council of Australia and KPMG.

TABLE 7.1 TAXES AND APPROVAL/COMPLIANCE PROCESSES FOR FOREIGN INDIVIDUALS PURCHASING RESIDENTIAL DWELLINGS

Jurisdiction	Approval for foreign investment required	Allowed to buy new dwellings	Allowed to buy existing dwellings	Additional taxes payable on acquisition [a]	Additional taxes payable during ownership [a]	Additional taxes payable on exit [a]
Australia	Yes [b]	Yes	Generally No [c]	Yes [d]	Yes [e]	Yes [f]
Canada	Generally No [g]	Yes	Yes	Yes [h]	Yes	Yes [i]
New Zealand	Generally No [j]	Yes	Yes	No	No	Yes [k]
Singapore	Generally No [l]	Yes	Yes	Yes [m]	No	Yes [n]
United Kingdom	No	Yes	Yes	No [o]	No	No
United States	No	Yes	Yes	No	No	No [p]

[a] Compared to a domestic buyer.

[b] Foreign residents purchasing Australian dwellings will need to seek approval from the Foreign Investment Review Board (FIRB). Application fee starts at $5,000 for residential property of less than $1m.

[c] Foreign residents can only buy existing dwellings where: i) it is purchased for redevelopment which results in an increase in housing stock (e.g. one dwelling is replaced with two or more dwellings); or ii) the foreign individual is a temporary resident, the property is owner occupied and the property is sold before the individual permanently leaves Australia.

[d] Additional stamp duty is payable on dwellings in Victoria (7%), New South Wales (4%) and Queensland (3%).

[e] Additional land tax is payable on dwellings in Victoria (1.5%) and New South Wales (0.75%).

[f] Capital gains tax (CGT) is payable on any gain from the sale without the benefit of any CGT discount or main residence exemption. Currently, if the property value exceeds $2m, the purchaser will be required to withhold and remit to the Australian Taxation Office 10% of the sale proceeds – the non-resident must lodge an Australian tax return and may claim a credit for the withholding amount. The recent Federal Budget delivered on 9 May 2017 seeks to amend this withholding to 12.5% and reduce the value threshold to $750,000 from 1 July 2017.

[g] Foreign residents only need to seek approval from Investment Canada for any transactions over C$800m in enterprise value (threshold from 24 April 2017, increased to $1bn starting 24 April 2019). A number of Canadian provinces also regulate and restrict the amount of land that non-residents can buy (e.g. limits on farm land).

[h] Additional 15% stamp duty is payable on the transfer of residential property located in the Greater Vancouver Region District (excluding certain First Nations land). Similarly, the province of Ontario recently announced that, effective April 21, 2017, an additional 15% land transfer tax (the Non-resident Speculation Tax, or "NRST") will apply on the purchase of residential property in certain regions of Ontario (including the Greater Toronto Area and near-by municipalities to Toronto). The NRST will not apply to transfers of multi-residential rental apartment buildings, agricultural land, or commercial/industrial land. Ontario also announced amendments to permit the municipalities to consider additional taxes (such as, a vacant homes property tax).

[i] Purchaser will be required to withhold and remit to the Canada Revenue Authority 25% of the sale proceeds – the non-resident must lodge a Canadian tax return and may claim a credit for the withholding amount. Additional 15% withholding tax is required for property located in the province of Quebec.

[j] Foreign residents only need to seek approval if they are acquiring 'sensitive land' – most urban land is not defined as sensitive. Sensitive land includes non-urban land over 5 hectares, foreshore, seabeds, land held for conservation purposes, reserves or public parks and land subject to a heritage order.

[k] Foreign residents who are defined as an offshore resident land withholding tax individual and where property is owned for less than two years before selling, are subject to a withholding tax on sale of residential land at the lesser of: (i) sale price x 10%; (ii) greater of sale price less purchase price x 33% or zero; (iii) if the seller's conveyancer is the withholder, then the greater of the sale price less registered securities with a New Zealand registered bank or licenced non-bank deposit taker, or zero; (iv) if the purchaser's conveyancer or the purchaser is the withholder, then the greater of the sale price or zero.

[l] Foreign residents do not need to seek approval for the purchase of private apartments or condominiums. However, foreign residents are prohibited from purchasing all the units in a residential development or condominium development, unless an approval is obtained from the relevant authority. Foreigners are prohibited from purchasing public residential housing and residential land or landed property. Foreigners have to obtain approval to purchase landed property.

[m] Additional 15% stamp duty is payable for any dwelling located in Singapore.

[n] Where the investment is held by a non-resident property trader, 15% withholding tax applies on the sale price from the sale of real property.

[o] UK has introduced a 3% stamp duty surcharge for "additional" properties purchased by any (domestic or foreign) buyer. An additional property includes a second home, holiday home and investment property.

[p] A non-US seller generally will be liable to US federal (and state) income tax liability on gain from the sale of a residence at the same rates and in the same manner as a US citizen or resident, though certain "principal residence" rollover exemptions available to US citizens or residents may not apply. Additionally, a purchaser (whether US or non-US) generally should be required to withhold and remit to the U.S. Internal Revenue Service 15% of the gross amount realized from the sale (taking into account, for example, assumption of a mortgage). Additionally, the non-resident must lodge a US tax return to report the gain or loss arising from the sale. The non-resident seller may claim a credit for the withholding amount on the return to obtain a refund (if greater than the tax liability due from the sale) or to pay additional liability (if the withholding is less than the tax due at sale).

SOURCE: PROPERTY COUNCIL OF AUSTRALIA AND KPMG.

7.1.2 Purchases of land to build new dwellings

Table 7.2 provides a comparison of the taxes and approval/compliance processes between countries for foreign persons purchasing land to develop new dwellings.

In the case of foreign owned developers purchasing land to build new dwellings there is even a greater divergence between Australia's investment policy and the one of competing nations. As shown in Table 7.2, both the entry conditions and the tax treatment of foreign owned developments are stricter in Australia than in the other jurisdictions. In fact, Australia is the only one of these countries to impose additional taxes across the whole life of the asset while in foreign hands.

TABLE 7.2 TAXES AND APPROVAL/COMPLIANCE PROCESSES FOR FOREIGN OWNED DEVELOPERS PURCHASING LAND TO BUILD NEW DWELLINGS

Jurisdiction	Approval for foreign investment required	Conditions imposed on foreign developers	Additional taxes payable on acquisition [a]	Additional taxes payable during ownership [a]	Additional taxes payable on exit [a]
Australia	Yes [b]	Yes [c]	Yes [d]	Yes [e]	Yes [f]
Canada	Generally No [g]	No	No	No	Yes [h]
New Zealand	Generally No [i]	No	No	No	Yes [j]
Singapore	Generally No [k]	No	No	No	Yes [l]
United Kingdom	No	No	No	No	No
United States	No	No	No	No	Yes [m]

[a] Compared to a domestic buyer.

[b] Foreign developers will need to seek approval from FIRB. Application fee will depend on the number of properties that can be built on the land: i) If 10 or more new dwellings can be built, $10,100; and ii)If less than 10 new dwellings can be built, the fee will be calculated based on the property value, starting from $5,000 for residential property of less than $1m.

[c] Where 10 or more new dwellings will be built: i) Continuous construction must commence within five years of the date of approval; and ii) Land cannot be sold until construction is complete. Where less than 10 new dwellings will be built: i) Development must be completed within four years of the date of approval; and ii) Evidence of completion is submitted within 30 days of being received.

[d] Additional stamp duty is payable on dwellings in Victoria (7%), New South Wales (4%) and Queensland (3%). Developers adding to housing stock can seek an exemption from the stamp duty surcharge in Victoria and Queensland.

[e] Additional land tax is payable on dwellings in Victoria (1.5%) and New South Wales (0.75%). Developers adding to housing stock can seek an exemption from the land tax surcharge in Victoria.

[f] Capital gains tax (CGT) is payable on any gain from the sale without the benefit of any CGT discount. Currently, if the property value exceeds $2m, the purchaser will be required to withhold and remit to the Australian Taxation Office 10% of the sale proceeds – the non-resident must lodge an Australian tax return and may claim a credit for the withholding amount. The recent Federal Budget delivered on 9 May 2017 seeks to amend this withholding to 12.5% and reduce the value threshold to $750,000 from 1 July 2017.

[g] Foreign residents only need to seek approval from Investment Canada for any transactions over C$800m in enterprise value (threshold from 24 April 2017, increased to $1bn starting 24 April 2019). A number of Canadian provinces also regulate and restrict the amount of land that non-residents can buy (e.g. limits on farm land).

[h] Purchaser will be required to withhold and remit to the Canada Revenue Authority 25% of the sale proceeds – the non-resident must lodge a Canadian tax return and may claim a credit for the withholding amount. Additional 15% withholding tax is required for property located in the province of Quebec.

[i] Foreign residents only need to seek approval if they are acquiring 'sensitive land' – most urban land is not defined as sensitive. Sensitive land includes non-urban land over 5 hectares, foreshore, seabeds, land held for conservation purposes, reserves or public parks and land subject to a heritage order.

[j] Foreign owned development companies who are defined as an offshore resident land withholding tax individual and where property is owned for less than two years before selling, are subject to a withholding tax on sale of residential land at the lesser of: (i) sale price x 10%; (ii) greater of sale price less purchase price x 33%, or zero; (iii) if the seller's conveyancer is the withholder, then the greater of the sale price less registered securities with a New Zealand registered bank or licenced non-bank deposit taker, or zero; (iv) if the purchaser's conveyancer or the purchaser is the withholder, then the greater of the sale price or zero.

[k] Foreign developers will need to seek approval from the Singapore Land Authority.

[l] Where the investment is held by a non-resident property trader, 15% withholding tax applies on the sale price from the sale of real property.

[m] A non-US seller generally will be liable to US federal (and state) income tax liability on gain from the sale of a US real property (as developments or single residential assets) at the same rates and in the same manner as US citizens or residents. As above, a purchaser (whether US or non-US) generally should be required to withhold and remit to the U.S. Internal Revenue Service 15% of the gross amount realized from the sale (taking into account, for example, assumption of any liabilities of the Seller). Additionally, the foreign Seller must lodge a US tax return to report the gain or loss from the sale. The Seller may claim a credit for the withholding amount on the return to obtain a refund (if greater than the tax liability due from the sale) or must pay additional liability (if the withholding is less than the tax due at sale).

SOURCE: PROPERTY COUNCIL OF AUSTRALIA AND KPMG.

7.1.3 Investment in commercial real estate

Table 7.3 provides a comparison of the treatment of investment in commercial real estate between different countries.

In terms of commercial real estate, the stringency of Australia's foreign investment framework is more aligned to its competitors. This seems to reflect the higher contestability and (potentially) higher sophistication of commercial real estate investors. Nevertheless, as shown in Table 7.3, the approvals required to invest in commercial real estate in Australia are more rigorous than in the other competing nations.

TABLE 7.3 TAXES AND APPROVAL/COMPLIANCE PROCESSES FOR FOREIGN CAPITAL INVESTING IN COMMERCIAL REAL ESTATE

Jurisdiction	Approval for foreign investment required	Additional taxes payable on acquisition [a]	Additional taxes payable during ownership [a]	Additional taxes payable on exit [a]
Australia	Generally Yes [b]	No	Yes [c]	Yes [d]
Canada	Generally No [e]	No	Yes [f]	Yes [g]

Jurisdiction	Approval for foreign investment required	Additional taxes payable on acquisition [a]	Additional taxes payable during ownership [a]	Additional taxes payable on exit [a]
New Zealand	Generally No [h]	No	No	Yes [i]
Singapore	No	No	Yes [j]	Yes [k]
United Kingdom	No	No	Yes [l]	No [m]
United States	No	No	Yes [n]	Yes [o]

[a] Compared to a domestic buyer.

[b] FIRB approval is required where the acquisition relates to: i) vacant commercial land – application fee is $10,100; and ii) non-vacant commercial land that exceeds $252m (unless the property is considered to be sensitive in which case the threshold is $55m). The notification threshold increases to $1,094m where the purchaser is from a country with whom Australia has a Free Trade Agreement (Chile, China, Japan, New Zealand, South Korea and United States), and where the purchaser acquires the property directly (i.e. not through a special purpose vehicle). The application fee is $25,300.

[c] Where the investment is held through an Australian managed investment trust (MIT), distributions are subject to 15% withholding tax on income and capital gains where the investor is from an "Exchange of Information" country, otherwise the rate is 30%. Victoria imposes a 1.5% land tax surcharge on commercial real estate owned by foreign residents. Investors may be able to seek an exemption from the land tax surcharge if they can demonstrate they have benefited the Victorian economy.

[d] Where the investment is held directly by the foreign investor, and the property is sold: i) capital gains tax (CGT) is payable on any gain from the sale without the benefit of any CGT discount; and ii) if the property value exceeds $2m, the purchaser will be required to withhold and remit to the Australian Taxation Office 10% of the sale proceeds – the non-resident must lodge an Australian tax return and may claim a credit for the withholding amount. The recent Federal Budget delivered on 9 May 2017 seeks to amend this withholding to 12.5% and reduce the value threshold to $750,000 from 1 July 2017. Where the investment is held through a MIT and the units in the MIT are sold, CGT is payable if: i) the foreign investor held more than a 10% interest in the MIT at any time during the 24 months preceding the disposal; and ii) more than 50% of the market value of the MIT's assets consist of real property. Where the investment is held through a MIT and the MIT sells the real property, any capital gain is subject to the MIT withholding tax rates (see (c) above).

[e] Foreign residents only need to seek approval from Investment Canada for any transactions over C$800m in enterprise value (threshold from 24 April 2017, increased to $1bn starting 24 April 2019). A number of Canadian provinces also regulate and restrict the amount of land that non-residents can buy (e.g. limits on farm land).

[f] Where the investment is held through a Canadian Real Estate Investment Trust (REIT), a distribution of the REIT's income that is subject to Canadian non-resident withholding tax (i.e. not a return of capital) will be subject to 25% withholding tax, which may be reduced to 15% under certain tax treaties

[g] Where the investment is held directly by the foreign investor and the property is sold, the purchaser will be required to withhold and remit to the Canada Revenue Authority 25% of the sale proceeds – the non-resident must lodge a Canadian tax return and may claim a credit for the withholding amount. Additional 15% withholding tax is required for property located in the province of Quebec. Where the investment is held through a Canadian REIT and the units in the REIT are sold, CGT is payable if the investor held more than 25% of the REIT's units at any time during the 60 months preceding the disposal.

[h] Foreign residents only need to seek approval if they are acquiring 'sensitive land' – most urban land is not defined as sensitive. Sensitive land includes non-urban land over 5 hectares, foreshore, seabeds, land held for conservation purposes, reserves or public parks and land subject to a heritage order.

[i] Foreign investment held in a non-individual investment vehicle, who are defined as an offshore resident land withholding tax individual and where property is owned for less than two years before selling, are subject to a withholding tax on sale of residential land at the lesser of: (i) sale price x 10%; (ii) greater of sale price less purchase price x 33%, or zero; (iii) if the seller's conveyancer is the withholder, then the greater of the sale price less registered securities with a New Zealand registered bank or licenced non-bank deposit taker, or zero; (iv) if the purchaser's conveyancer or the purchaser is the withholder, then the greater of the sale price or zero.

[j] Where the investment is held through a Singapore Real Estate Investment Trust (REIT), distributions of the REIT's income will be subject to 10% withholding tax (until 31 March 2020).

[k] Where the investment is held by a non-resident property trader, 15% withholding tax applies on the sale price from the sale of real property.

[l] A non-resident company owning UK real estate is subject to UK income tax at 20% on net rental profits whereas a UK resident company owning UK real estate is subject to UK corporation tax at 19%. (Note there is a consultation currently underway which if implemented will remove this distinction, i.e. all companies (both resident and non-resident) will be subject to UK corporation tax). Where the investment is held through a UK Real Estate Investment Trust (REIT), distributions are subject to 20% withholding tax on income. In principle, this applies to all investors in UK REITs although certain types of investors are entitled to receive distributions gross (e.g. UK companies, charities, local authorities and pension schemes).

[m] A foreign (i.e. non UK resident) owner of commercial property is not subject to UK tax on capital gains arising on a disposal of UK commercial property (whereas a UK resident owner is).

[n] Generally, a non-US person is liable to US tax on income or gain from ownership, operation and disposition of US real property interest at the same rates and in the same manner as US resident taxpayers. However, certain differences in treatment may arise. For example, where the investment is held through a US Real Estate Investment Trust (REIT), "capital gain" distributions from a REIT attributable to the sale of US real property interests are subject to up to 35% withholding tax when paid by the REIT to the non-US shareholder. As well, the REIT shareholder must again lodge a US tax return to report the tax liability due and obtain a refund for any over-withheld amounts or pay additional US tax in the event liability exceeds the withholding.

[o] As above, a purchaser (whether US or non-US) generally should be required to withhold and remit to the U.S. Internal Revenue Service 15% of the gross amount realised from the sale (taking into account, for example, assumption of any liabilities of the Seller). Additionally, the foreign Seller must lodge a US tax return to report the gain or loss from the sale. The Seller may claim a credit for the withholding amount on the return to obtain a refund (if greater than the tax liability due from the sale) or must pay additional liability (if the withholding is less than the tax due at sale). However, income or gain realized on exit may be exempt from US tax and withholding if the following regimes apply:

- Where the investment is held through a domestically controlled REIT (DC REIT), income from the sale of its shares generally should not be liable to US tax and withholding, and a tax return filing generally should not arise. To qualify as a DC REIT, at all times during a prescribed testing period, less than 50% of the value of the REIT shares may be held directly or indirectly by foreign persons.

A qualified foreign pension fund (QFPF) or a foreign entity that is wholly owned by a QFPF is exempt from tax and withholding on income or gain realized from the sale of a US real property interest (as well as distributions from a REIT that are attributable to the gain from a sale or exchange of US real property interest by a REIT). Note, however, that a QFPF may still be liable to US tax and reporting if the entity is (or is treated as) engaged in US business directly or through a flow-through entity.

SOURCE: PROPERTY COUNCIL OF AUSTRALIA AND KPMG.

7.1.4 Summary

Overall, Australia's foreign investment framework for real estate is more stringent and has higher levels of scrutiny, than other countries with which Australia competes in the market for global capital. This is especially prevalent with regards to residential investment and less so in investment in commercial assets.

8 CONCLUSION

The analysis in this report has sought to provide clarity about the quantum and type of foreign investment in Australian real estate, its importance and contribution to the Australian economy and some of the common arguments and misconceptions surrounding this type of investment. The key findings from this analysis are summarised below.

Benefits of foreign investment for Australia

- Australia's investment requirements have historically been higher than can be financed through domestic savings. International capital makes up the difference, filling the gap between what Australia saves and invests every year and allowing Australia to have higher rates of economic growth than would otherwise be possible.
  - Over the past 25 years, the gap between national investment and saving has been around 4 per cent of GDP. In 2015-16 alone, this represented a shortfall of $67 billion.
- Foreign investment also provides other benefits beyond the injection of new capital. It encourages competition amongst industries, increases innovation by bringing new technologies, services and skills to Australia and provides access to new markets and export opportunities. In addition, the higher growth supported by foreign investment pays dividends for all Australians by increasing tax revenues and hence increasing the funds available to spend on hospitals, schools, roads and other essential services.

Level of foreign investment in Australian real estate

- There is no single authoritative source of data on foreign investment in Australian real estate.
  - FIRB's data is the best indicator of future foreign investment into Australian residential real estate, although it has significant limitations.
  - RCA data is the most complete dataset of foreign investment in Australian commercial real estate.
- Real estate (comprising residential and commercial proposals) represented around 50 per cent of total FIRB approvals by value in 2015-16 and 2014-15.
  - The value of FIRB's *total foreign residential approvals* as a share of the value of total dwelling turnover in Australia remained broadly steady through the 2000-01 to 2012-13 period, fluctuating around 2-5 per cent. However, there has been a marked increase from 2013-14, with the value of total foreign approvals as a share of total dwelling turnover in Australia increasing to 13.5 per cent in 2015-16.
  - FIRB's approvals for purchases of *new dwellings* as a share of total dwelling turnover have significantly increased in recent years. While these approvals fluctuated around 1-3 per cent over the 2000-01 to 2012-13 period, they reached 11 per cent in 2015-16.

  - Over the last fifteen years, there has been a small increase in FIRB's approvals to purchase *existing dwellings*, although these approvals remain only around 2.5 per cent of the total value of housing turnover in 2015-16.
- Foreign investment in commercial real estate in Australia has remained stable in the last three years at around $20 billion.
- Australia benefits from foreign investment in real estate because this investment:
  - helps fund investments and projects that Australia could not support purely with domestic savings
  - increases the demand for, and supply of, housing stock. This produces benefits for the construction industry, employment and economic growth
  - increases the number of providers of goods and services, which encourages competition and boosts housing supply
  - increases innovation through the transfer of skills and experience from overseas markets to Australia
  - increases government revenues in the form of stamp duties and other taxes from the overall higher economic growth that flows from the additional investment. This increases funds available to support essential Australian services.

Contribution of foreign investment in real estate to the Australian economy

- An illustrative analysis of a 20 per cent reduction in foreign investment inflows for development of residential and commercial real estate showed the importance of this type of investment for Australia and the potential implications of possible policy interventions or changing investment conditions that could significantly restrict foreign investment in real estate.
- Over a ten year period from 2017-18 to 2026-27, a reduction of 20 per cent in foreign investment inflows for development of residential dwellings (estimated to be approximately $1.5 billion in 2017-18)[29] would:
  - reduce Australia's economic output (i.e. real GDP) by a cumulative total of $14.8 billion over 10 years
  - decrease economic welfare across Australia. In particular, it would reduce the real income of Australia by a total of $14.1 billion.[30] The value today of this whole of life impact ($11.4 billion) is equivalent to reducing the average income of all current residents of Australia by $470 per person
  - reduce employment across Australia by around 26,341 employee years of Full Time Equivalent (FTE) jobs.[31] This is equivalent to losing around 2,634 FTE jobs per year
  - lead to a decrease in real wages of 0.15 per cent per year on average for every working person in Australia. This is equivalent to a decrease of $123 per year for a person with an annual wage of $82,800[32]
  - decrease Commonwealth Government revenues by a total of $5.3 billion. The present value of this change is equivalent to a one-off decrease in revenues of $4.3 billion
  - decrease revenues of all state governments by a total of $1.1 billion (equivalent to a one-off decrease in revenues of $886 million).

---

29 As noted before, there is no information about the actual amount of foreign investment in Australian residential real estate. As such, to model this scenario ACIL Allen produced estimates of foreign investment inflows for development of new residential real estate based on available FIRB and ABS data. These estimates were benchmarked against the current total levels of foreign inflows into Australia and the value of residential construction to ensure that they were realistic and consistent with the macroeconomic environment. However, these estimates are provided for illustrative purposes only.

30 Real income is a measure of the ability to purchase goods and services, adjusted for inflation. Income not only includes wages, but also return to capital and terms of trade. A rise in real income indicates a rise in the capacity for current consumption, but also an increased ability to accumulate wealth in the form of financial and other assets.

31 An employee year is employment of one full time equivalent (FTE) person for one year or, say, one 0.5 FTE person for two years.

32 According to the ABS, the full-time adult average weekly total earnings as at November 2016 is $1,592.40.

— Over the period 2017-18 to 2026-27, a reduction of 20 per cent in foreign investment inflows for development of commercial buildings (estimated to be approximately $3.4 billion in 2017-18) would:
  – reduce Australia's real GDP by a cumulative total of $21.4 billion over 10 years
  – reduce the real income of Australia by a total of $20.4 billion. The value today of this whole of life impact ($16.6 billion) is equivalent to reducing the average income of all current residents of Australia by $680 per person
  – reduce employment by around 24,423 employee years of FTE jobs. This is equivalent to losing around 2,442 FTE jobs per year
  – lead to a decrease in real wages of 0.23 per cent per year on average. This is equivalent to a decrease of $187 per year for a person with an annual wage of $82,800
  – decrease Commonwealth Government revenues by a total of $8.3 billion. The present value of this change is equivalent to a one-off decrease in revenues of $6.7 billion
  – decrease revenues of all state governments by a total of $1.9 billion (equivalent to a one-off decrease in revenues of $1.5 billion).

Myths and misconceptions

— *Myth: Foreign investors are buying existing dwellings* — FIRB's rules do not allow foreign investors to buy existing dwellings. Only temporary residents (e.g. people on a student or work visa) are allowed to buy existing dwellings. This dwelling must be used as their principal place of residence, cannot be rented and must be sold within three months from when it ceases to be their principal place of residence.

— *Myth: Foreign investors are buying up all new housing stock* — foreign investors clearly do not buy all new housing stock. The analysis found that foreign investment in new dwellings *has* indeed increased over time (a trend that is good for the economy, because foreigners' money leads to more new dwellings being built), but it represents *at most* about 11 per cent of total dwelling turnover.

— *Myth: Foreign investors leave homes vacant* — there is no evidence that the problem of vacant residential properties, if it is a problem (there is only very limited publically data about vacant dwellings in Australia), is a problem that is caused by foreign investors.

— *Myth: Foreign investors do not pay their fair share of tax* — foreign investors pay plenty of taxes. Indeed, foreign persons acquiring property in Australia not only pay FIRB fees for approval (which are paid *per application*, regardless of whether the asset is acquired or not, and sometimes paid several times if a foreign person does not buy the first property they applied for[33]), but also a range of other additional taxes on acquisition, during ownership and when selling their properties.

— *Myth: Foreign investors will keep coming irrespective of the restrictiveness of the Australian investment framework* — foreigners invest in Australia because it has a stable political, economic, legal and regulatory environment. However, foreign investors have the whole world to invest in. If the investment framework they have to deal with becomes unreasonable and oppressive, Australia will no longer be an attractive investment destination. This will mean Australia will lose the significant economic benefits of this international investment.

— *Myth: Foreign investors push up dwelling prices* — claims that foreign investors push up dwelling prices are overstated. A study by the Australian Treasury found that foreign investment adds between $80 and $122 to the price of a dwelling per quarter in Sydney and Melbourne, respectively. Compared to the average quarterly price increase over the period of study of $12,800, the amount that foreign buyers add to prices is minor and may actually be better described as rounding error.

— *Myth: Foreign investors only come to Australia to buy houses* — foreign persons invest in a range of industries across Australia (not only real estate). Furthermore, within the real estate sector,

[33] This will no longer be the case under proposed changes in the recent Australian Government Budget 2017 which introduce two new Residential Exemption Certificates.

foreign persons invest in a range of assets. Besides investing in residential dwellings, foreigners invest around $20 billion per annum across a number of commercial assets in Australia, including:

- office buildings
- industrial buildings
- retail buildings
- hotels
- senior housing
- student housing.

International comparison of Australia's regulatory investment framework

Australia's foreign investment framework for real estate is more stringent and has higher levels of scrutiny, than other countries with which Australia competes in the market for global capital. This is especially prevalent with regards to residential investment.

9

REFERENCES

Australian Bureau of Statistics (ABS) 2014, Submission to the House Economics Committee inquiry into foreign investment in residential real estate.

Australian Bureau of Statistics (ABS) 2017, Residential Dwellings: Values, Mean Price and Number by State and Territories, April.

Australian Department of Foreign Affairs and Trade (DFAT) 2017, *Australia and foreign investment page*, http://dfat.gov.au/trade/topics/investment/Pages/australia-and-foreign-investment.aspx, Accessed 4 April 2014.

Australian Treasury 2017, *Government forces foreign nationals to sell over $100m worth of illegally acquired Australian real estate*, Press Release, 6 February, http://sjm.ministers.treasury.gov.au/media-release/006-2017/, Accessed 3 April 2017.

Australian Treasury 2016a, *Foreign Investment into Australia,* Treasury Working Paper, January.

Australian Treasury 2016b, *Foreign Investment and Residential Property Price Growth*, Working Paper 2016-3, 2 December.

Australian Treasury 2015, *Government orders forced sale of properties illegally held by foreign residents*, Press Release, 6 February, http://sjm.ministers.treasury.gov.au/media-release/010-2015/, Accessed 3 April 2017.

Australian Treasury 2014, *Submission to the Inquiry into Foreign Investment in Residential Real Estate,* May.

Duke, J. 2017, 'Claims foreigners buying 11 per cent of NSW real estate 'bogus'', *Domain*, 15 March, https://www.domain.com.au/news/fact-check-claims-foreigners-buying-10pc-of-nsw-real-estate-bogus-20170315-guyhvw/ , Accessed 3 April.

Ellis L. and Naughtin C 2010, 'Commercial Property and Financial Stability – An International Perspective', *RBA Bulletin*, June, pp 25–30.

Foreign Investment Review Board (FIRB) 2017a, *Budget 2017 changes, http://firb.gov.au/2017/05/3333/*, Accessed 10 May 2017.

Foreign Investment Review Board (FIRB) 2017b, *Annual Report 2015-16,* April.

Foreign Investment Review Board (FIRB) 2016a, *Australia's Foreign Investment Policy,* 1 July.

Foreign Investment Review Board (FIRB) 2016b, *Annual Report 2014-15,* April.

Foreign Investment Review Board (FIRB) 2015, *Guidance Note 31: Who is a foreign person?* November.

Government of British Columbia 2016a, *Updated residential real estate data – June 10 through Oct. 31*, 29 November, https://news.gov.bc.ca/releases/2016FIN0053-002520, Accessed 3 April 2017.

Government of British Columbia 2016b, *Property Transfer Tax Report Jun 10 to Oct 31 2016*, https://news.gov.bc.ca/files/Property_Transfer_Tax_Report_Jun_10_to_Oct_31_2016.pdf, Accessed 3 April 2017.

Lane K., Sinclair A. and Orsmond D. 2014, 'Foreign Investment in Australian Commercial Property', *RBA Bulletin*, September, pp 22-26.

National Australia Bank (NAB) 201, *NAB Residential Property Survey: Q2 2016*, July.

NSW Office of State Revenue 2017a, *Data on the real property transfers by country of tax residence & citizenship*, March, https://data.nsw.gov.au/data/dataset/data-on-the-real-property-transfers-by-country-of-tax-residence-citizenship, Accessed 3 April 2017.

NSW Office of State Revenue 2017b, Data on the 4% Surcharge Purchaser Duty collected from foreign property buyers March, https://data.nsw.gov.au/data/dataset/data-on-the-4-surcharge-purchaser-duty-collected-from-foreign-property-buyers, Accessed 3 April 2017.

Pearson, N. 2016, 'Foreign Buying Plummets in Vancouver After New Property Tax', Bloomberg, 23 September, https://www.bloomberg.com/news/articles/2017-04-03/dollar-climbs-as-new-quarter-tempts-buyers-while-yen-strengthens, Accessed 3 April 2017.

Prosper Australia 2015, Speculative Vacancies 8: the empty properties ignored by statistics, Melbourne.

Reserve Bank of Australia (RBA) 2014, Submission to the Inquiry into Foreign Investment in Residential Real Estate, House of Representatives Standing Committee on Economics, May.

Winestock, G. 2017, 'Foreigners buying 11 per cent of NSW homes', *Australian Financial Review*, 14 March, http://www.afr.com/real-estate/residential/foreigners-buying-11pc-of-nsw-homes-20170313-guxgc5, Accessed 3 April.

APPENDICES

A DETAILS OF AUSTRALIA'S POLICY ON FOREIGN INVESTMENT IN REAL ESTATE

As discussed in Chapter 3, Australia's Foreign Investment Framework's rules, requirements and considerations for approval of residential and commercial real estate acquisitions in Australia are different. These are discussed in more detail in the sections below.

Notably, the Australian Government's recent 2017 Budget included several changes to the Framework. Information on these changes is provided in Box A.1 at the end of this appendix. At the time of writing, the final details of these changes are subject to the passage of legislation.

A.1 Residential real estate

Under the Framework, foreign persons need to apply for approval before purchasing residential real estate in Australia (regardless of value). In general, the Australian Government's policy is to channel foreign investment into new dwellings, and hence applications are generally considered in light of the overarching principle that the proposed investment should increase Australia's housing stock (by creating at least one new additional dwelling). Consistent with this objective, different foreign investment rules apply depending on:

- whether the type of property being acquired will increase the overall housing stock or is an established dwelling
- whether the foreign person is a temporary resident in Australia[34] or a non-resident.

The main characteristics of the foreign investment rules for residential real estate are summarised in the sections below (more details about these rules and exceptions can be found in FIRB's Guidance Notes 1 to 10).

New dwellings and vacant land

Applications for purchasing new dwellings and vacant land for development by foreign persons (temporary residents or non-residents) are usually approved without conditions. Notably:

[34] A temporary resident is 'an individual who holds a temporary visa that permits them to remain in Australia for a continuous period of more than 12 months (regardless of how long remains on the visa) or is residing in Australia, has submitted an application for a permanent visa and holds a bridging visa which permits them to stay in Australia until that application has been finalised.' (FIRB 2016a, p.5)

— once new dwellings are purchased or built, they may be rented out, sold, or retained for the foreign investor's own use
— applications to purchase vacant land are normally approved subject to construction being completed within four years (to prevent land banking)
— land that has previously had an established dwelling on it would generally not be treated as vacant land
— foreign or domestic developers of new residential projects can apply for a 'New Dwelling Exemption Certificate' and receive pre-approval to sell up to 100 per cent of the new dwellings in a specified development to foreign persons. Once the certificate is granted, no further approval for each individual buyer is required. This certificate is granted for specified developments on the condition that the dwellings for sale in the development are marketed in Australia (developers can also choose to market the development overseas if they wish to do so).[35]

Established dwellings

Approvals for purchasing established dwellings are generally limited to the following and are normally subject to conditions.

— Foreign persons who are temporary residents can apply to purchase one established dwelling for use as their residence in Australia. They must sell this within three months of it ceasing to be their primary residence. Temporary residents cannot acquire established dwellings to rent out or for use as a holiday home.
— Foreign controlled companies are generally prohibited from purchasing established dwellings in Australia. However, foreign companies with a substantial Australian business can apply to purchase established dwellings to house their Australian based staff.
— Foreign persons (both temporary residents and non-residents) can purchase established dwellings for redevelopment, provided the redevelopment increases Australia's housing stock (for example, demolishing one dwelling and building two or more in its place).

Notably, non-resident foreign persons are generally prohibited from purchasing established dwellings in Australia.

Exemptions

There are a few circumstances under which certain foreign persons (or certain acquisitions) are exempt from the requirements to apply for, and receive, foreign investment approval before purchasing residential real estate in Australia.

— ***Exempt persons*** — the following persons do not need foreign investment approval before purchasing residential real estate in Australia:
  – Australian citizens and permanent residents
  – New Zealand citizens
  – individuals purchasing property as joint tenants with their Australian citizen or permanent resident spouse or New Zealand spouse
  – an Australian corporation that would not be a foreign person if interests directly held in it by Australian citizens living abroad, Australian permanent visa holders or New Zealand citizens were disregarded
  – the trustee of a resident trust, if at the time of the acquisition, the trustee would not be a foreign person if interests directly held in it by Australian citizens living abroad, Australian permanent visa holders or New Zealand citizens were disregarded
  – a charity operating in Australia primarily for the benefit of persons ordinarily resident in Australia.

[35] For more details about requirements to obtain a New Dwelling Exemption Certificate please refer to FIRB's Guidance Note 8 (Residential Real Estate - New Dwelling Exemption Certificate).

— ***Exempt actions —*** foreign persons (regardless of citizenship or residency) do not require foreign investment approval to acquire an interest in residential real estate that is:
  – a new dwelling purchased from a developer that holds a New Dwelling Exemption Certificate (as discussed above)
  – a time share scheme where the foreign person's total entitlement (including any associates) to access the land is no more than four weeks in any year
  – acquired by will or devolution of law
  – acquired directly from the Commonwealth, a State, a Territory, or local governing body, or an entity wholly owned by the Commonwealth, a State, a Territory or a local governing body
  – an interest in certain residential real estate in designated Integrated Tourism Resorts (for more information on these, please refer to FIRB's Guidance Note 16).

Notably, the foreign investment framework provides for some other exemptions not outlined above. For additional details on exemptions, please refer to FIRB's Guidance Notes.

A.2 Commercial real estate

Foreign persons may be required to notify and receive a 'no objection notification' (i.e. approval) before acquiring an interest in commercial real estate in Australia. Different rules apply depending on whether the acquisition relates to vacant land or developed commercial land, whether the proposed acquisition falls into the category of sensitive commercial land that is not vacant, and the value of the proposed acquisition.

Commercial land is defined as land in Australia (including any building on the land) or the seabed of the offshore area, other than land:

— used wholly and exclusively for a primary production business;
— on which the number of dwellings that could reasonably be built is less than 10; or
— on which there is at least one dwelling (except commercial residential premises).

Land in Australia in which the only dwellings are commercial residential premises are considered developed commercial land. Commercial residential premises include:

— a hotel, motel, inn, hostel or boarding house;
— premises used to provide accommodation in connection with a school;
— a marina with berths occupied by ships used as residences;
— a caravan park or camping ground; or
— any other premises similar to those outlined under *A New Tax System (Goods and Services Tax) Act 1999*, other than premises used to provide accommodation to students in connection with an education institution that is not a school.

Commercial residential premises do not include retirement villages and aged care facilities.

The rules for acquisitions by foreign persons of commercial land in Australia are discussed in more detail in the sections below.

Vacant commercial land

Foreign persons generally need to notify before acquiring an interest in any vacant commercial land, regardless of the value of the proposed acquisition. Approval will normally be granted subject to conditions that the foreign person:

— commences continuous construction of the proposed development on the land within five years of the date of approval
— does not sell the land until construction is complete.

Developed commercial land

Foreign persons need to notify FIRB before acquiring an interest in developed commercial land only if the value of the proposed acquisition is more than the relevant notification threshold. The general notification threshold for developed commercial land is $252 million unless the proposed acquisition is considered to be sensitive, in which case the threshold is $55 million.

If the foreign person is from an agreement investor country, the threshold is $1,094 million regardless of whether the land is considered sensitive.[36]

Threshold values are indexed annually on 1 January.

Foreign government investors are required to notify before acquiring any interest in developed commercial land, regardless of the value and their country of origin.

Retirement and aged care facilities

An acquisition of an interest in a dwelling that is physically located within the property of a retirement village or aged care facility is considered to be an acquisition of residential land, regardless of whether the dwelling is part of the business operations.

However, where the owner of the business is a foreign person, an acquisition of an interest in a dwelling that is a buy back or lease back arrangement that is part of the ordinary business operations of the retirement village or aged care facility will be considered to be an acquisition of developed commercial land.

[36] Agreement country investors are Chilean, Chinese, Japanese, New Zealand, South Korean and United States investors, except foreign government investors. This will also include Trans Pacific Partnership countries, when the TPP comes into force for that country (if higher thresholds do not already apply). TPP countries are: Brunei, Canada, Chile, Japan, Malaysia, Mexico, Peru, New Zealand, Singapore, the United States and Vietnam.

BOX A.1 AUSTRALIAN GOVERNMENT BUDGET 2017: PROPOSED CHANGES TO FOREIGN INVESTMENT FRAMEWORK

50 per cent foreign ownership cap for New Dwelling Exemption Certificates

A 50 per cent cap on the total amount of dwellings a developer can sell to foreign persons under a New Dwelling Exemption Certificate has been introduced for applications made from 7:30pm (AEST) 9 May 2017.

Annual vacancy charge

The Government will introduce an annual vacancy charge on new foreign owners of residential property where the property is not occupied or genuinely available on the rental market for at least six months each year. The charge will be equivalent to the relevant foreign investment application fee imposed on the property at the time it was acquired by the foreign investor. It will be implemented on foreign persons who make a foreign investment application for residential property from 7:30pm (AEST) on 9 May 2017.

Foreign persons who are purchasing in a development which has a New Dwelling Exemption Certificate will be subject to the charge where the acquisition was made after 7.30pm (AEST) on 9 May 2017. Investments approved prior to this time will not be subject to the charge.

Streamlining Australia's foreign investment framework

The Government will introduce a range of amendments that will reduce the requirement for investors to seek multiple approvals for similar low risk transactions, amend the commercial fee framework to improve transparency and consistency, and improve the treatment of low risk commercial transactions to enable the system to operate more efficiently and reduce regulatory burden. The amendments will take effect from 1 July 2017. Key changes include:

1. Streamlining and simplifying the commercial fee framework:
   - Application fees for acquiring interests in agricultural land, commercial land, businesses securities and assets will be better aligned and standardised by implementing a three-tier fee structure. This will reduce the number of fee tiers in some categories (for example agricultural land) to three fee tiers.
   - Legislating some current fee relief arrangements, including building in additional low value fee rules.
2. Introducing a new business exemption certificate:
   - Foreign investors (including foreign government investors) in securities will have access to an exemption certificate allowing pre-approval for multiple investments in the one application rather than having to apply separately for each investment.
   - Further guidance on the types of transactions that will be eligible for the exemption certificate will be released prior to 1 July 2017.
3. Introducing two new Residential Exemption Certificates:
   - An exemption certificate will be introduced to allow developers to re-sell off-the-plan dwellings that failed to settle and would be technically considered 'established' to foreign persons.
   - An exemption certificate will be introduced so that only one approval is required for individuals considering a number of residential properties with the intention to only purchase one. This exemption certificate is currently available for purchases of established dwellings and this will be extended to new dwellings.
4. Amending the treatment of residential land used for commercial purposes:
   - Currently, the statutory definition of commercial residential premises excludes some property that for the purposes of the foreign investment framework are considered commercial in nature, for example student accommodation and aged care facilities.
   - This will be addressed by bringing these types of residential dwellings that are used for a commercial purpose within the meaning of commercial residential premises.
5. Narrow the scope of the 'low threshold' non-vacant commercial land definition:
   - Experience has demonstrated that the scope of non-vacant commercial land treated as sensitive and subject to the lower $55 million screening threshold is too broad and captures developed commercial land that is not sensitive in practice.
   - This will be addressed by narrowing what is treated as sensitive land by, for example, removing 'prescribed airspace' which covers most commercial properties in the CBDs of Australia's major cities. Guidance material will be provided prior to 1 July 2017.
6. Other minor amendments
   - Amendments will also clarify the treatment of developed solar and wind farms as commercial non-vacant land rather than vacant land and agricultural land, reducing unnecessary red-tape.
   - Restoring the previous arrangement whereby companies with significant foreign custodian holdings (i.e. legal rather than equitable interest holders) are not subject to notification requirements.

SOURCE: FIRB 2017A.

B

FOREIGN INVESTMENT DATA SOURCES

There is no single authoritative source of data on foreign investment in Australian real estate. The main sources of data on foreign investment into Australia are the following.

B.1 Australian Bureau of Statistics (ABS)

The ABS international investment statistics provide quarterly data on investment activity into and out of Australia. ABS also provides statistics on the stock of *direct* foreign investment into Australia by industry (including construction and real estate activities).

ABS notes that (ABS 2014, p.1):

Both in terms of dissemination and collection practices, it is not possible to dissect the available information to define values for foreign investment in real estate, either at the total level, or the split between residential and commercial real estate. This is a consequence of the methodology used to collect and compile these estimates.

As there is no appropriate source for the collection of data on foreign investment in real estate, the ABS foreign investment in real estate series is compiled using a combination of ABS collected and estimated data.

ABS collects its foreign investment data through a business survey. A quarterly *Survey of International Investment* is sent to those Australian domiciled units engaging in significant foreign transaction activity. Only businesses with investment activity above certain value thresholds are included in the ABS survey and hence, some low value investments are not accounted for through collected data. Furthermore, foreign investors who own Australian real estate directly without investing through an Australian corporate structure are not captured in this survey (as there is no Australian resident to survey) and hence the value of this investment is modelled based on information on investment intentions from FIRB and media reporting in the national press and industry-specific periodicals.

In addition, foreign investment in property trusts and other real estate investment vehicles is not separately identified from foreign investment in businesses providing ‘other business services’ – for example, legal or accounting services. Foreign-owned businesses classified into other industry sectors may also own real estate which does not get captured in the statistics, particularly more diversified investment vehicles (ABS, 2014).

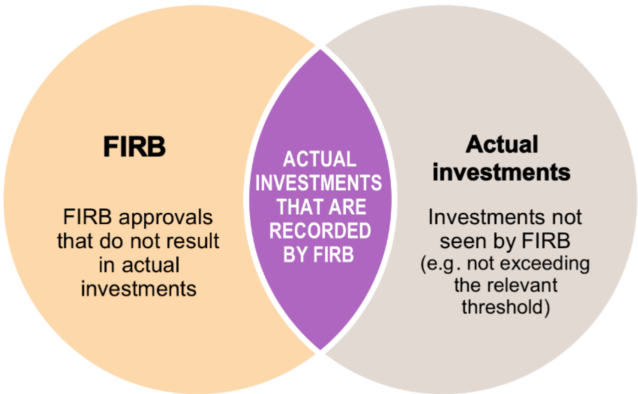
B.2 Foreign Investment Review Board (FIRB)

FIRB publishes data on foreign investment proposals that are subject to approval. FIRB data is published annually and provides a breakdown of proposed investment by country and sector (including real estate). While the FIRB data is generally viewed as the best indicator of future foreign investment into Australian real estate, it has significant limitations which restrict its use as an indicator of foreign investment in Australian real estate. These limitations including the following.

— Data collected by FIRB is based on approvals for proposed, rather than actual, direct investments in Australia. This means that FIRB data includes approvals for investment intentions that may not result in actual investments (see Figure B.1 for a summary of the coverage of current FIRB data). The conversion rate from approval to actual investment may be higher following introduction of application fees from 1 December 2015.
— FIRB statistics include some double counting due to approvals for multiple potential acquirers of the same target asset.
— Foreign or domestic developers of new residential projects can currently receive pre-approval from FIRB to sell up to 100 per cent[37] of the dwellings to foreign investors, after which no further approval from the individual buyers is required. As a consequence, the published FIRB data does not reflect the share of new residential dwellings in these projects that was actually sold to foreign investors or the timing as to when the sales took place.
— FIRB data reflects only gross approvals by foreign buyers; the subsequent sale of their properties to Australian citizens or permanent residents (required for instance when temporary residents vacate the property) is not included in the FIRB data.
— FIRB data does not cover foreign investments below the various monetary and percentage thresholds specified in the foreign investment framework.
— The source of proposed investment identified in the FIRB data does not necessarily reflect the country of control (e.g. the source may be attributed to a company's single substantial shareholder).
— The proposed investment of an approved proposal is the amount advised by the applicants or the best estimate based on the available information. It represents an estimate of the expected proposed investment in the 12 months from the approval.
— FIRB's data is not comparable over time given changes in the various monetary and percentage thresholds specified in the foreign investment framework.

Given the above limitations (and setting aside any potential under-reporting to FIRB), the FIRB data is likely to represent an upper limit on the actual level of foreign investment in Australian real estate.

FIGURE B.1 OVERVIEW OF FIRB DATA.



SOURCE: THE AUSTRALIAN TREASURY (2016A)

B.3 Real Capital Analytics (RCA)

RCA is a global data and analytics firm offering proprietary research on the investment market for commercial real estate. RCA tracks cross-border acquisitions of commercial real estate globally,

[37] This will no longer be the case under proposed changes in the recent Australian Government Budget 2017 which reduce this proportion to 50 per cent.

providing the most complete dataset of foreign investment in Australian commercial real estate assets available. RCA does not collect data on individual residential transactions. More information about the RCA datasets included for analysis in this report is provided in Appendix C.

B.4 Offices of State Revenue

Three Australian states (NSW, Victoria and Queensland) have recently introduced surcharges for residential property purchases by foreigners. As a result of these surcharges, the corresponding Offices of State Revenue collect data on property transfers by foreign buyers. While this data is generally not publically available, a freedom of information request has seen data for NSW publically released. However, caution is needed when using this data as the definition of foreign investors differ to that used by FIRB and others. For instance, the data released by the NSW Office of State Revenue (OSR) includes those permanent residents of Australia who are deemed foreign persons for the purposes of the duties surcharge[38], but does not separate these individuals out.

B.5 Surveys of 'views' on the share of foreign investment

There are at least a couple of publicly available surveys of stakeholders' views[39] on the share of foreign investment in Australian real estate (for instance, the ANZ/Property Council Survey and the NAB Residential Property Survey). The limitations of these surveys include the following.

- They rely on people's views of foreign demand/purchases, not on actual sales.
- It is unclear how people surveyed distinguish between sales to foreign investors, Australian expatriates, permanent residents or Australian citizens when completing these surveys.
- Respondents are not provided with a common definition of foreign buyer, so it is unclear how they deem buyers as 'foreign'.
- The size of the sample is generally small. For instance, the NAB Residential Property Survey is based on views of around 250 panellists across Australia. This panel of respondents consists of real estate agents/managers, property developers, asset/fund managers and owners/investors.

[38] According to the NSW OSR, a person is deemed 'foreign' for the purposes of a duties surcharge if the individual making the purchase has not been in Australia during 200 or more days in the period of 12 months immediately preceding the purchase.

[39] Including real estate agents/managers, property developers, asset/fund managers and owners/investors.

C REAL CAPITAL ANALYTICS DATASETS

Real Capital Analytics (RCA) is a data and analytics firm offering proprietary research on the investment market for commercial real estate. RCA tracks cross-border acquisitions of commercial real estate globally, providing the most complete dataset of foreign investment in Australian commercial real estate assets available.

RCA collects data on all commercial transactions in Australia above $5 million USD and globally for all commercial transactions above $10 million USD (for consistency purposes). All transactions are recorded in the local currency first and converted by 1st of month exchange rate to other currencies.

Data for Australia is available from 2007 in a quarterly, monthly and annual basis. RCA estimates that their data cover approximately 90-95 per cent of all commercial real estate transactions in Australia.

Data sources

RCA uses a vast array of sources for their data, including:

— data partners (e.g. RP Data in Australia)

— land registries

— company filings and disclosures

— press releases and media

— public records

— industry contacts (e.g. brokers, investors, lenders and originators).

Each record is derived from two or more independent reports augmented by RCA's proprietary research. The information flow is continuous and immediately processed to ensure that the most up-to-date information is available.

Data coverage

RCA covers all commercial property types and classifies them into the following sub-types:

- office
- industrial
- retail
- hotel
- multifamily residential
- senior housing/healthcare
- self-storage
- student housing
- development sites

The data held by RCA covers all large and small markets across 146 countries around the globe. RCA covers all transactions in real time, including closed and pending deals:

- sales, recapitalizations, partial interests
- financings, defaults, foreclosures
- properties, portfolios, entities.

Limitations

- RCA does not collect data on individual residential transactions.
- RCA does not track equity and is unable to identify the original source of capital when transactions are done by investment managers on behalf of one of their funds as there is no visibility as to where the capital was raised from.
- Joint Ventures — as RCA is unable to identify each party's share in a deal, the source of capital is assigned to the first party mentioned.

D

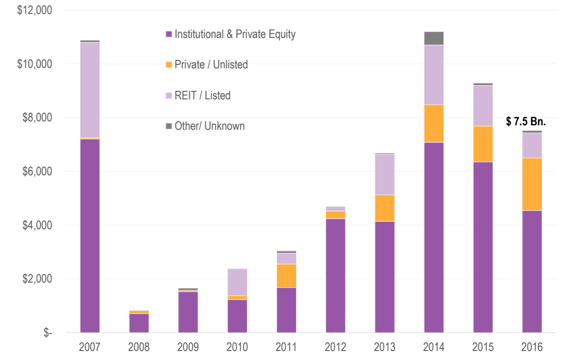
SNAPSHOT OF FOREIGN INVESTMENT IN COMMERCIAL REAL ESTATE BY TYPE OF ASSET

The following pages provide a snapshot of the quantum, type, origin and destination of foreign investment in Australian across different commercial asset types.

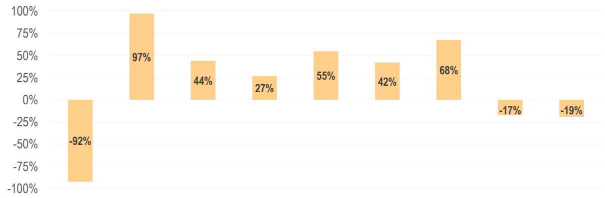
FIGURE D.1 OFFICE SPACE SNAPSHOT

OFFICE SPACE

Annual foreign investment transaction volume by investor type ($m)



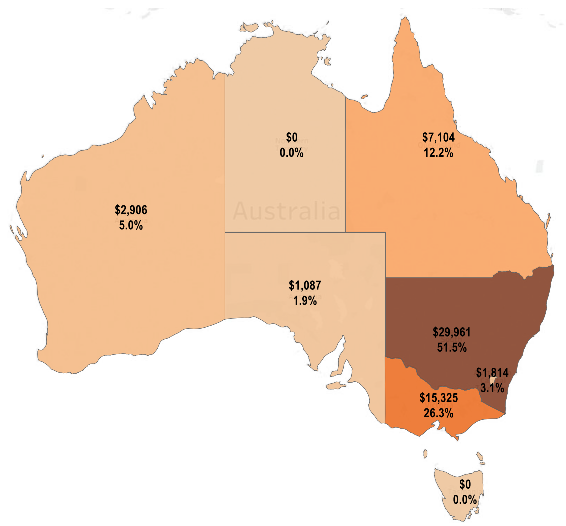
Transaction volume year-on-year change



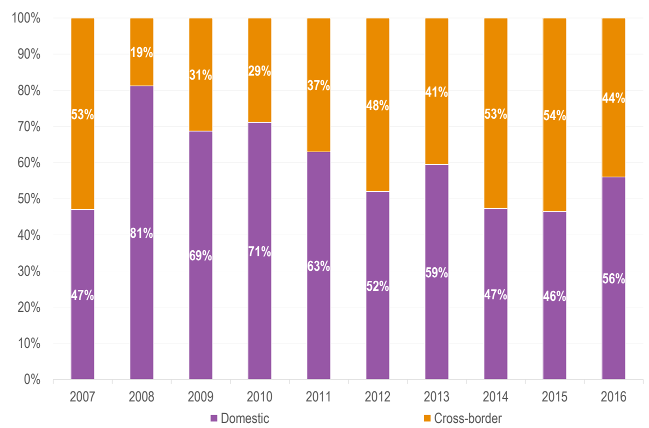
Top 5 sources of foreign capital ($m)

	2016	2012	2007	2007-2016
	$ 7,520	**$ 4,705**	**$ 10,880**	**$ 58,200**
1	$ 2,350	$ 2,820	$ 6,180	$ 15,560
2	$ 1,450	$ 1,450	$ 3,430	$ 9,970
3	$ 1,360	$ 450	$ 500	$ 6,410
4	$ 645	$ 445	$ 160	$ 2,850
5	$ 360	$ 155	$ 125	$ 2,610

Foreign investment by state 2007 - 2016 ($m)



Investment in Australian offices by source of capital



Foreign investment in office space by state, 2007 – 2016 ($m)

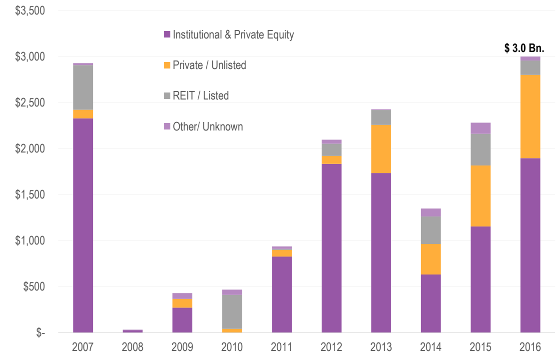
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2007 - 2016
ACT	$ 308	$ 224	$ 216	$ 91	$ -	$ 371	$ 268	$ 113	$ 225	$ -	**$ 1,814**
NSW	$ 4,965	$ 122	$ 903	$ 858	$ 1,916	$ 2,413	$ 3,288	$ 5,919	$ 5,435	$ 4,143	**$ 29,961**
NT	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ -**
QLD	$ 2,032	$ 156	$ -	$ 715	$ 300	$ 697	$ 878	$ 1,259	$ 539	$ 529	**$ 7,104**
SA	$ 297	$ 51	$ -	$ 67	$ 103	$ 100	$ -	$ 242	$ 73	$ 154	**$ 1,087**
TAS	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ -**
VIC	$ 2,471	$ 268	$ 381	$ 621	$ 575	$ 990	$ 1,686	$ 3,361	$ 2,706	$ 2,266	**$ 15,325**
WA	$ 808	$ 19	$ 159	$ 43	$ 142	$ 132	$ 565	$ 305	$ 304	$ 428	**$ 2,906**
TOTAL	**$ 10,880**	**$ 840**	**$ 1,659**	**$ 2,394**	**$ 3,035**	**$ 4,703**	**$ 6,683**	**$ 11,199**	**$ 9,283**	**$ 7,520**	**$ 58,196**

Note: Data includes all transactions above $5 million USD.

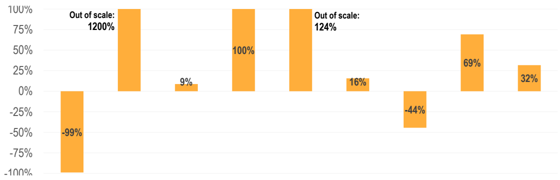
SOURCE: ACIL ALLEN BASED ON REAL CAPITAL ANALYTICS DATA.

FIGURE D.2 RETAIL SPACE SNAPSHOT

Annual foreign investment transaction volume by investor type ($m)



Transaction volume year-on-year change

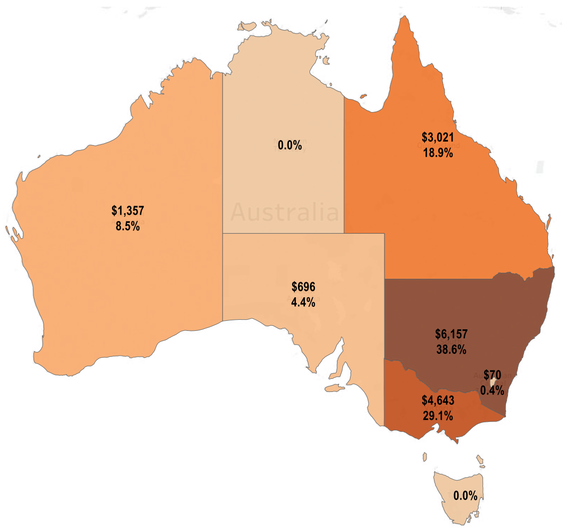


RETAIL SPACE

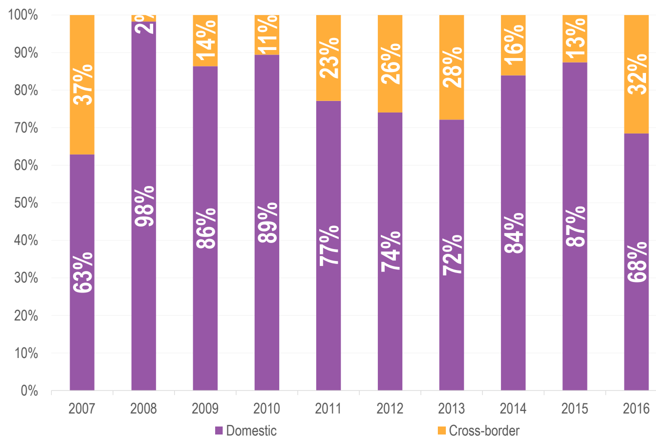
Top 5 sources of foreign capital

		2016		2012		2007		2007-2016
		$ 2,999		$ 774		$ 2,441		$ 13,601
1		$ 1,595		$ 608		$ 1,433		$ 5,437
2		$ 469		$ 26		$ 825		$ 3,235
3		$ 296		$ 57		$ 87		$ 1,266
4		$ 233		$ 20		$ 52		$ 705
5		$ 220		$ 16		$ 15		$ 654

Foreign investment by state 2007 - 2016 ($m)



Investment in Australian retail by source of capital



Foreign investment in retail space by state, 2007 – 2016 ($m)

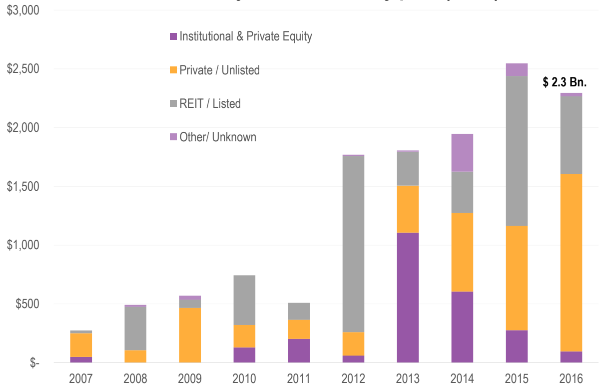
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2007 - 2016
ACT	$ -	$ -	$ -	$ -	$ -	$ -	$ 70	$ -	$ -	$ -	**$ 70**
NSW	$ 962	$ 5	$ 24	$ 256	$ 307	$ 1,324	$ 1,284	$ 527	$ 777	$ 690	**$ 6,157**
NT	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ -**
QLD	$ 281	$ 28	$ 136	$ 57	$ 62	$ 468	$ 60	$ 581	$ 705	$ 644	**$ 3,021**
SA	$ -	$ -	$ 13	$ -	$ -	$ -	$ -	$ -	$ 288	$ 395	**$ 696**
TAS	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ -**
VIC	$ 1,510	$ -	$ -	$ 31	$ 553	$ 37	$ 618	$ 233	$ 429	$ 1,231	**$ 4,643**
WA	$ 174	$ -	$ 257	$ 123	$ 15	$ 266	$ 393	$ 7	$ 82	$ 40	**$ 1,357**
TOTAL	**$ 2,927**	**$ 33**	**$ 430**	**$ 467**	**$ 937**	**$ 2,096**	**$ 2,425**	**$ 1,348**	**$ 2,281**	**$ 2,999**	**$ 15,944**

Note: Data includes all transactions above $5 million USD.

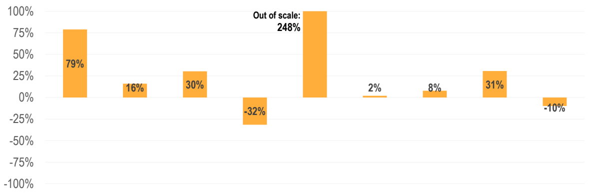
SOURCE: ACIL ALLEN BASED ON REAL CAPITAL ANALYTICS DATA.

FIGURE D.3 HOTELS SNAPSHOT

Annual foreign investment transaction volume by investor type ($m)



Annual transaction volume year-on-year change

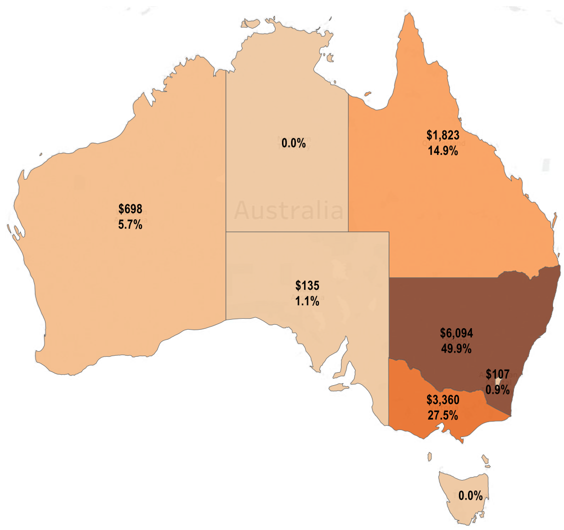


HOTELS

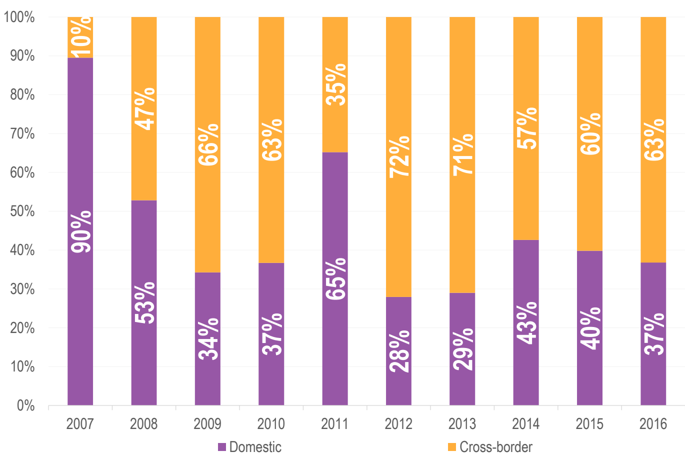
Top 5 sources of foreign capital ($m)

	2016	2012	2007	2007-2016
	$ 2,222	$ 1,764	$ 275	$ 12,848
1	$ 989	$ 523	$ 202	$ 3,866
2	$ 546	$ 452	$ 62	$ 2,815
3	$ 233	$ 399	$ 12	$ 1,544
4	$ 200	$ 266		$ 1,016
5	$ 129	$ 79		$ 799

Foreign investment by State 2007 – 2016 ($m)



Investment in Australian hotels by source of capital – (%)



Foreign investment in hotels by state, 2007 – 2016 b ($m)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2007 - 2016
ACT	$ -	$ -	$ 80	$ -	$ -	$ -	$ 22	$ -	$ -	$ 6	**$ 107**
NSW	$ 202	$ 92	$ 194	$ 244	$ 14	$ 910	$ 606	$ 1,194	$ 1,463	$ 1,175	**$ 6,094**
NT	$ -	$ -	$ 8	$ -	$ -	$ -	$ 21	$ 84	$ 42	$ -	**$ 155**
QLD	$ 49	$ 20	$ 176	$ 268	$ 138	$ 483	$ 67	$ 76	$ 372	$ 172	**$ 1,823**
SA	$ -	$ -	$ 110	$ -	$ -	$ -	$ 7	$ -	$ -	$ 18	**$ 135**
TAS	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ -**
VIC	$ 12	$ 326	$ -	$ 136	$ 358	$ 283	$ 315	$ 444	$ 563	$ 924	**$ 3,360**
WA	$ 12	$ 54	$ 2	$ 96	$ -	$ 93	$ 184	$ 150	$ 107	$ -	**$ 698**
TOTAL	**$ 275**	**$ 492**	**$ 571**	**$ 744**	**$ 509**	**$ 1,770**	**$ 1,222**	**$ 1,948**	**$ 2,547**	**$ 2,296**	**$ 12,372**

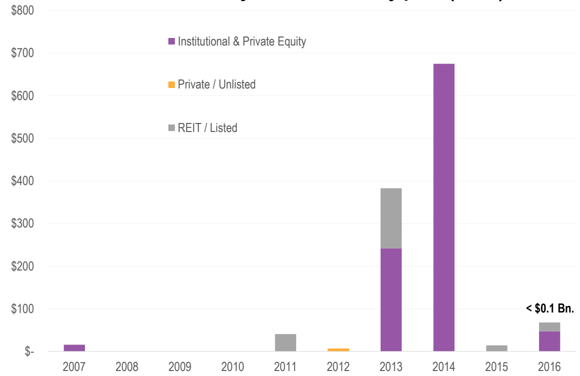
Note: Data includes all transactions above $5 million USD.

SOURCE: ACIL ALLEN BASED ON REAL CAPITAL ANALYTICS DATA.

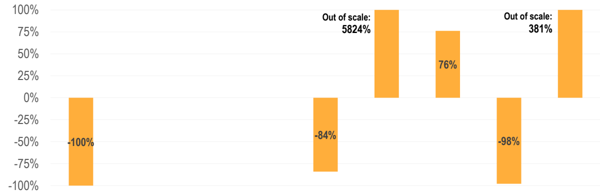
FIGURE D.4 SENIOR HOUSING SNAPSHOT

SENIOR HOUSING

Annual foreign investment transaction volume by investor type ($m)



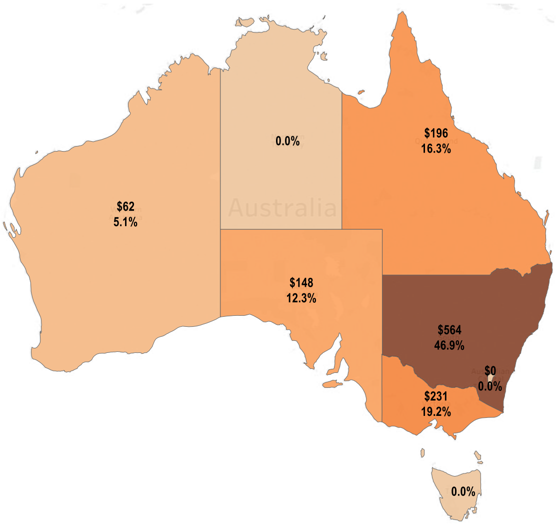
Annual transaction volume year-on-year change



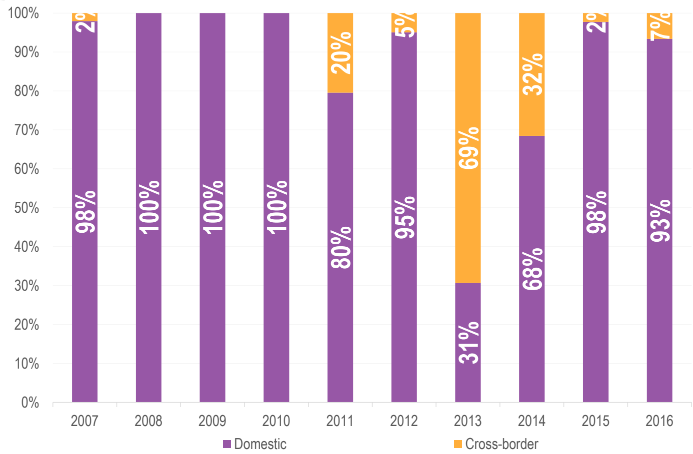
Top 5 sources of foreign capital ($m)

	2016		2012		2007		2007-2016
		$ 68		$ 6		$ 16	$ 1,196
1		$ 47		$ 6		$ 16	$ 675
2		$ 21					$ 298
3							$ 166
4							$ 41
5							$ 16

Foreign investment by state 2007 – 2016 ($m)



Investment in Australian senior housing facilities by source of capital – (%)



Foreign investment in senior housing by state, 2007 – 2016 ($m)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2007 - 2016
ACT	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ -**
NSW	$ -	$ -	$ -	$ -	$ -	$ 6	$ 105	$ 426	$ 14	$ 13	**$ 564**
NT	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ -**
QLD	$ 7	$ -	$ -	$ -	$ 41	$ -	$ 48	$ 86	$ -	$ 15	**$ 196**
SA	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 148	$ -	$ -	**$ 148**
TAS	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ -**
VIC	$ -	$ -	$ -	$ -	$ -	$ -	$ 216	$ 15	$ -	$ -	**$ 231**
WA	$ 9	$ -	$ -	$ -	$ -	$ -	$ 13	$ -	$ -	$ 40	**$ 62**
TOTAL	**$ 16**	**$ -**	**$ -**	**$ -**	**$ 41**	**$ 6**	**$ 383**	**$ 675**	**$ 14**	**$ 68**	**$ 1,202**

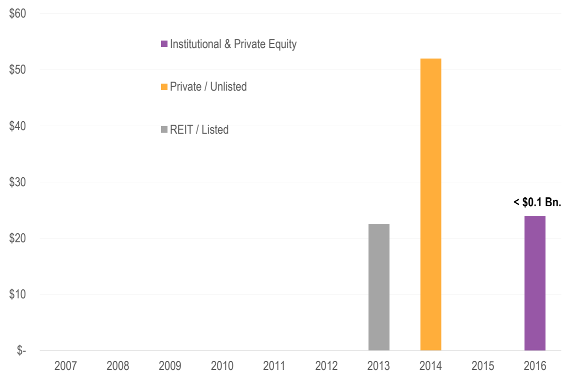
Note: Data includes all transactions above $5 million USD.

SOURCE: ACIL ALLEN BASED ON REAL CAPITAL ANALYTICS DATA.

FIGURE D.5 STUDENT HOUSING SNAPSHOT

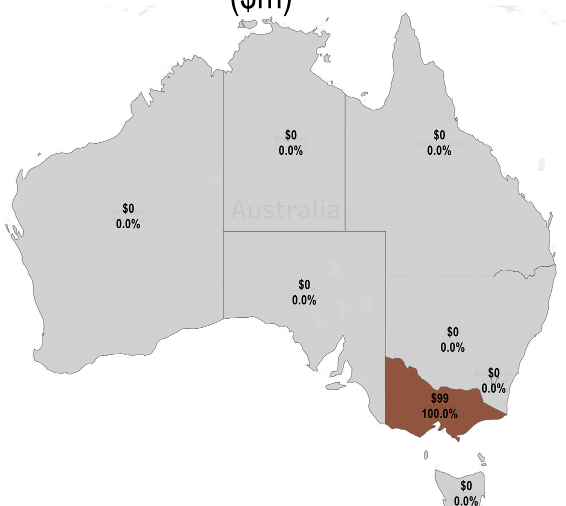
STUDENT HOUSING

Annual foreign investment transaction volume by investor type ($m)



Annual transaction volume year-on-year change

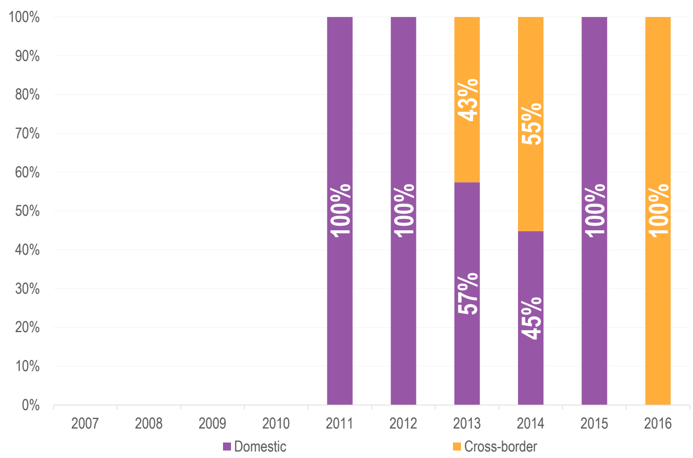
Foreign investment by State 2007 – 2016 ($m)



Top 3 sources of foreign capital ($m)

	2016		2012	2007	2007-2016	
	$	24			$	99
1	$	24			$	52
2					$	24
3					$	23

Investment in Australian student housing facilities by source of capital – (%)



Foreign investment in student housing by state, 2007 – 2016 ($m)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2007 - 2016
ACT	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
NSW	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
NT	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
QLD	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
SA	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TAS	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
VIC	$ -	$ -	$ -	$ -	$ -	$ -	$ 23	$ 52	$ -	$ 24	$ 99
WA	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 23**	**$ 52**	**$ -**	**$ 24**	**$ 99**

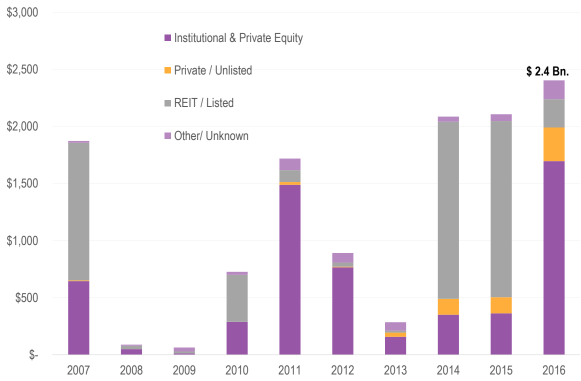
Note: Data includes all transactions above $5 million USD.

SOURCE: ACIL ALLEN BASED ON REAL CAPITAL ANALYTICS DATA

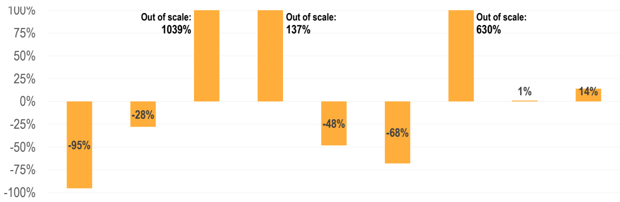
FIGURE D.6 INDUSTRIAL SPACE SNAPSHOT

INDUSTRIAL SPACE

Annual foreign investment transaction volume by investor type ($m)



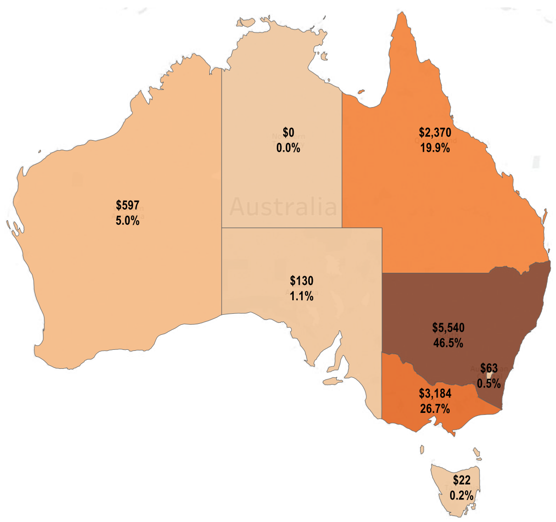
Transaction volume year-on-year change



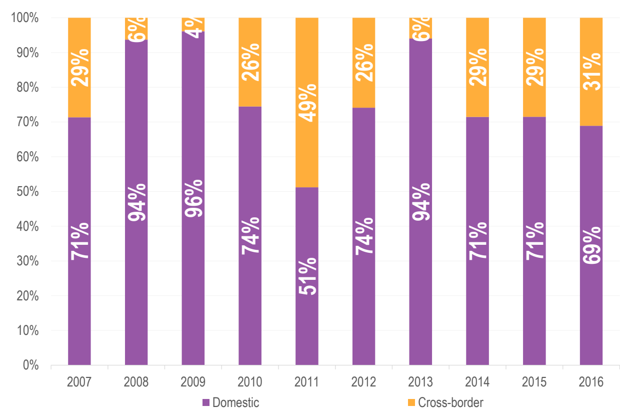
Top 5 sources of foreign capital ($m)

	2016	2012	2007	2007-2016
	$ 2,405	**$ 892**	**$ 1,874**	**$ 12,235**
1	$ 1,320	$ 454	$ 1,192	$ 4,054
2	$ 284	$ 136	$ 595	$ 2,795
3	$ 192	$ 104	$ 58	$ 2,659
4	$ 159	$ 66	$ 14	$ 629
5	$ 123	$ 51	$ 8	$ 427

Foreign investment by state 2007 – 2016 ($m)



Investment in Australian industrial space by source of capital



Foreign investment in industrial space by state 2007 – 2016 ($m)

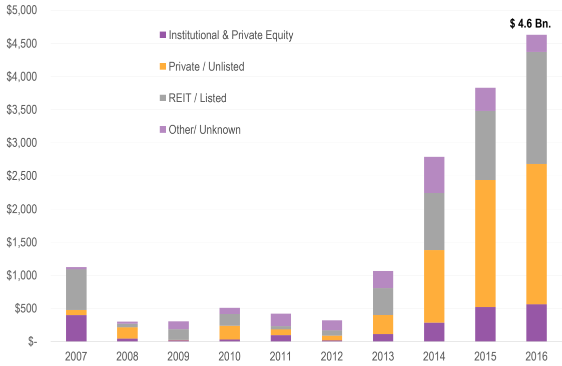
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2007 - 2016
ACT	$ -	$ -	$ 6	$ -	$ -	$ 33	$ -	$ -	$ -	$ 24	$ 63
NSW	$ 793	$ 79	$ 30	$ 206	$ 1,012	$ 271	$ 125	$ 885	$ 954	$ 1,186	$ 5,540
NT	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
QLD	$ 576	$ -	$ 28	$ 202	$ 210	$ 92	$ 62	$ 536	$ 407	$ 257	$ 2,370
SA	$ -	$ -	$ -	$ -	$ -	$ 9	$ 32	$ 16	$ 57	$ 15	$ 130
TAS	$ -	$ -	$ -	$ 5	$ -	$ -	$ -	$ -	$ 17	$ -	$ 22
VIC	$ 255	$ 10	$ -	$ 193	$ 470	$ 121	$ 24	$ 578	$ 610	$ 923	$ 3,184
WA	$ 249	$ -	$ -	$ 121	$ 28	$ 23	$ 42	$ 71	$ 62	$ -	$ 597
TOTAL	**$ 1,874**	**$ 88**	**$ 64**	**$ 727**	**$ 1,719**	**$ 548**	**$ 286**	**$ 2,087**	**$ 2,108**	**$ 2,405**	**$ 11,906**

Note: Data includes all transactions above $5 million USD.

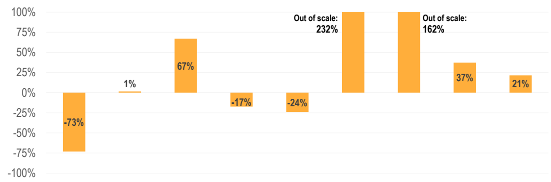
SOURCE: ACIL ALLEN BASED ON REAL CAPITAL ANALYTICS DATA

FIGURE D.7 COMMERCIAL DEVELOPMENT SITES SNAPSHOT

Foreign investment annual transaction volume by investor type ($m)



Transaction volume year-on-year change

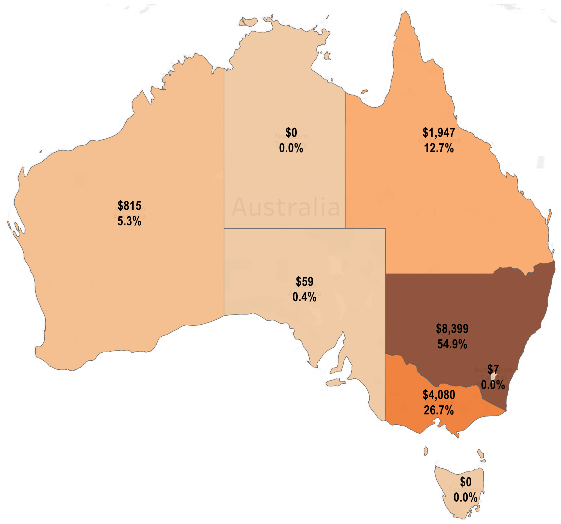


DEVELOPMENT SITES

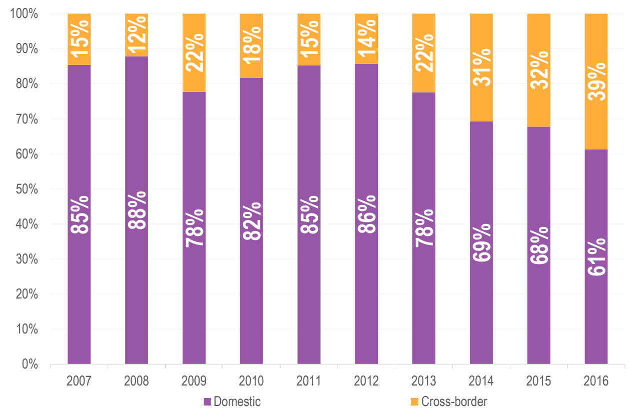
Top 5 sources of foreign capital ($m)

	2016	2012	2007	2007-2016
	$ 4,630	$ 321	$ 1,126	$ 15,251
1	$ 3,003	$ 75	$ 463	$ 7,155
2	$ 568	$ 61	$ 182	$ 2,094
3	$ 260	$ 49	$ 174	$ 1,357
4	$ 240	$ 42	$ 102	$ 1,026
5	$ 220	$ 38	$ 61	$ 845

Foreign investment by state 2007 – 2016 ($m)



Investment in Australian development sites by source of capital



Foreign investment in commercial development sites by state, 2007 – 2016 ($m)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2007 - 2016
ACT	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 7	$ -	$ -	$ 7
NSW	$ 730	$ 38	$ 173	$ 163	$ 138	$ 68	$ 366	$ 1,332	$ 2,258	$ 3,132	$ 8,399
NT	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
QLD	$ 211	$ 158	$ 80	$ 91	$ 106	$ 114	$ 60	$ 311	$ 492	$ 323	$ 1,947
SA	$ -	$ 8	$ -	$ -	$ -	$ -	$ -	$ 40	$ -	$ 11	$ 59
TAS	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
VIC	$ 185	$ 45	$ 42	$ 156	$ 76	$ 89	$ 496	$ 959	$ 889	$ 1,142	$ 4,080
WA	$ -	$ 53	$ 11	$ 100	$ 102	$ 50	$ 144	$ 142	$ 193	$ 22	$ 815
TOTAL	**$ 1,126**	**$ 301**	**$ 306**	**$ 511**	**$ 422**	**$ 321**	**$ 1,067**	**$ 2,791**	**$ 3,832**	**$ 4,630**	**$ 15,306**

Note: Data includes all transactions above $5 million USD.

SOURCE: ACIL ALLEN BASED ON REAL CAPITAL ANALYTICS DATA

E ECONOMIC IMPACT METHODOLOGY

This appendix provides additional technical details of the economic modelling reported in Chapter 5.

E.1 Modelling scenarios

As mentioned in Chapter 5, we have analysed the following two scenarios using a Computable General Equilibrium (CGE) model of the Australian economy, the Victoria University Regional Model (VURM).[40]

— *Scenario 1: reduction of foreign capital for residential construction* — this scenario analyses the impact on the economy of permanently reducing the amount of foreign investment flows for development of new residential dwellings (i.e. the supply of foreign capital that goes into residential construction) by 20 per cent (compared to the reference case or business as usual scenario).

— *Scenario 2: reduction of foreign capital for commercial construction* — this scenario examines the economic impact of permanently reducing the amount of foreign investment flows for development of new commercial real estate in Australia (i.e. the supply of foreign capital that goes into commercial real estate construction) by 20 per cent (compared to the reference case or business as usual scenario).

Scenario 1 was selected because, while in certain circumstances foreigners can buy existing residential dwellings, the aim of Australia's foreign investment policy is to encourage the increase of Australia's housing stock. Hence, this scenario aims to illustrate the potential impacts of discouraging this type of investment (i.e. it illustrates the impact of a supply side shock). Furthermore, modelling a scenario where purchases of individual dwellings by foreigners was reduced (i.e. a demand side shock) would not only be very complex and require significant model development, but would have to be based on several assumptions regarding alternative investor behaviour and feedback loops (e.g. where would foreign investors put their money instead of in Australian residential dwellings).

Similar to Scenario 1, Scenario 2 aims to illustrate the potential impacts of discouraging foreign investment for the construction of commercial real estate.

As discussed in previous chapters, the actual level of foreign investment in residential real estate is unknown and the level of foreign investment in commercial real estate can be volatile. As such, the magnitude of the shocks was assumed, but benchmarked to existing data to ensure that it was realistic and consistent given Australia's current capital inflows. Additional information about how these shocks were estimated is presented in the following section.

[40] VURM was formally known as the MMRF model. The name change occurred when the Centre of Policy Studies relocated from Monash University to Victoria University in 2014.

E.2 Modelling inputs

As mentioned throughout the report, inconsistencies between FIRB data, industry data and the ABS data makes it difficult to estimate the actual dollar value of real estate inflows for residential real estate development, and hence the direct impact of the assumed investment reductions for the scenarios inputs. In light of this, to model the residential scenario, ACIL Allen produced estimates of foreign investment inflows for development of new residential real estate based on available FIRB and ABS data. These estimates were benchmarked against the current total levels of foreign inflows into Australia and the value of residential construction to ensure that they were realistic and consistent with the macroeconomic environment and Australia's total capital inflows. However, these estimates are provided for illustrative purposes only. The various data sources used to produce the model input calculations are outlined in Table E.1.

TABLE E.1 DATASETS AND ESTIMATES USED FOR THE DEVELOPMENT OF MODELLING INPUTS

	Source	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
		$m	$m	$m	$m	$m	$m
Residential real estate							
Existing data sources of investment in residential real estate							
Total foreign investment approvals for residential development [a]	FIRB	10,800	27,200	49,250			
Foreign investment approvals for residential development - excluding new dwellings [b]	FIRB	2,160	3,100	6,180			
ACIL Allen estimates							
Foreign capital inflow for residential real estate development	ACIL Allen	2,160	3,100	6,180	6,779	7,437	
20% reduction in foreign capital inflows for residential real estate development	ACIL Allen						-1,487
Commercial real estate							
Existing data sources of investment in commercial real estate							
Foreign investment in existing commercial real estate [c]	RCA	12,672	20,100	20,064	19,973	20,321	
Foreign investment for commercial real estate developments [c]	RCA	1,067	2,791	3,832	4,654	5,449	
ACIL Allen estimates							
Foreign capital inflows for commercial real estate development	ACIL Allen	8,930	14,879	15,532	16,007	16,750	
20% reduction in foreign capital inflows for commercial real estate development							-3,350
Other estimates							
Total capital inflows in the economy	ABS	57,038	47,481	58,641	66,923	62,782	
Total real estate capital inflows as % of total capital inflows (ACIL Allen estimate)	ACIL Allen	28%	38%	37%	34%	39%	

[a] Includes vacant land, new dwellings (both individual purchases and developer 'off-the-plan'), dwellings for redevelopment and annual programs for development.

[b] Excludes both new dwellings individual purchases and developer 'off-the-plan'.

[c] Data includes all transactions above $5 million USD.

SOURCE: ACIL ALLEN CONSULTING.

Based on the data outlined in Table E.1, the modelling inputs for each of the scenarios have been calculated as follows.

— Scenario 1 — a permanent 20 per cent reduction in foreign capital inflows for construction of new residential real estate is equivalent to a reduction of around $1,487 million in capital inflows in 2016-17.
— Scenario 2 — a permanent 20 per cent reduction in foreign capital inflows for construction of commercial real estate is equivalent to a reduction of $3,350 million in capital inflows in 2016-17.

E.3 The Victoria University Regional Model (VURM)

ACIL Allen has employed the Victoria University Regional equilibrium Model (VURM) to estimate the impacts of limited foreign investment inflows scenarios against the baseline of no restrictions on foreign investment inflows. VURM is formerly known as the MMRF model and is a dynamic model of Australia's six states and two territories. It models each region as an economy in its own right, with region-specific prices, region-specific consumers, region-specific industries, and so on. Since VURM is dynamic, it is able to produce sequences of annual solutions connected by dynamic relationships. The model also includes enhanced capabilities for environmental analysis, and a regional disaggregation facility that allows results for the six states to be disaggregated down to 56 sub-state regions. VURM is ideally suited to determining the impact of region-specific economic shocks, and has been used to address a wide range of issues, including the economic impacts of various large export-oriented projects, the effects of global trading in greenhouse emission permits, and the effects of changes in state and federal tax rates.[41]

The version of the model used for this study was downloaded from the Centre of Policy Studies, Victoria University website in 2015 and ACIL Allen developed a baseline to assess the impacts in this study.[42] Our modelling methodology consists of model simulation set-up for baseline scenario and two foreign investment scenarios.

Key model features of VURM are provided in Box E.1.

E.3.1 Key behavioural relationships in the VURM

The implementation of the VURM model relies on calibration to data drawn from input/output statistics from the ABS (relating to the year 2009-10) and to data on various substitution elasticities relating to inputs for production and consumption and to exports. The values for these elasticities vary across commodities, but not regions. They have been drawn from a range of sources, including econometric estimation and literature surveys. The key elasticities govern the ease of substitutability between capital and labour (capital/labour substitution elasticities), the slope of foreign demand schedules for Australian exports (export demand elasticities), and the ease with which imports substitute domestically produced products with the same name (the so-called Armington elasticities).

In the version of VURM used for this study, the capital/labour substitution elasticities for all industries are set to 0.5. This implies a short-run elasticity of demand for labour equal to 0.6, which is a value consistent with a range of labour-market econometric studies. Export demand schedules are set to 5. There is very little contemporary evidence on values for these elasticities. A value of five delivers sensible terms of trade changes in response to standard shocks to the model. The Armington elasticities are set to values generally used in COPS models. These values, in turn, come from a range of sources including a survey undertaken at the Impact Centre in the early 1980s.

As noted above, the VURM allows for substitution between production and consumption inputs at both the firm and household levels. The aggregate response of dwellings supply to prices depends on several factors, including: the assumed constant partial elasticities; and the induced changes in the supply of capital and income of households. In the short run, the supply elasticity of ownership dwellings in this model is highly inelastic. Land is allocated only to agriculture in this model. Commercial and residential land is incorporated into other capital in their respective industries.

[41] https://www.copsmodels.com/models.htm
[42] **TPPA0145** Model, data and documentation for MMRF5 an updated and final version of MMRF, August 2014. See file readme.txt. Submitted October 2014 download (6.5MB). [Modified 19/11/2014 to include self-extracting archive for MMRF5 material.]

BOX E.1 KEY FEATURES OF VURM

VURM is well documented

VURM and its predecessor MMRF have been used extensively to analyse energy issues in Australia and, with suitable modifications, overseas. Most of these studies have employed VURM/MMRF in stand-alone mode to analyse purely domestic policies and developments. Other studies have used VURM/MMRF in conjunction with other models.

VURM has an up-to-date database

VURM is calibrated to the input/output data released by the Australian Bureau of Statistics (2009-10). Calibration of large scale CGE models is and expensive and time consuming task. Work for the current calibration was funded by the Productivity Commission and the Federal Treasury, and has just been completed. The current year-of-record for the model's database, though up-to-date from a statistical point of view, is nonetheless dated from a historical point of view. To deal with this problem, we update the 2009-10 to the present year (2016-17) via model simulation. The update simulation uses as input all observed data for Australia's states and territories (national accounts information, balance of payments statistics, labour force data, etc.), and utilises the model to fill in the missing parts. In this way we develop 2016-17 input/output database for each state jurisdiction.

VURM is dynamic

VURM contains many dynamic mechanisms. Perhaps the most important is capital accumulation - investment undertaken in one year is assumed to become operational at the start of next year. Under this assumption, capital in an industry and region accumulates according to:

— The quantity of capital available at the start of a year
— The quantity of new capital created during the year
— Depreciation during the year.

Given a starting value for capital and with a mechanism for explaining investment, the VURM model traces out the time paths of each regional industry's productive capital stocks. Following the approach taken in the model, investment in any one year is determined as increasing function of the ratio of the expected rate of return on investment to required rate of return. In standard closures of the model, the required rate of return is treated as an exogenous variable which can be moved to achieve a given growth rate in capital. In VURM, it is assumed that investors take account only of current rentals and asset prices when forming expectations about rates of return (static expectations).

SOURCE: CENTRE OF POLICY STUDIES, VICTORIA UNIVERSITY.

ACKNOWLEDGEMENTS

The Property Council would like to thank the following organisations for their support with this project:

— APN Property Group
— Brookfield Australia
— DEXUS Property Group
— Frasers Property Australia
— Goodman Group
— Lendlease
— Scentre Group
— Stockland
— The GPT Group
— Vicinity Centres.

ACIL ALLEN CONSULTING PTY LTD
ABN 68 102 652 148

ACILALLEN.COM.AU

ABOUT ACIL ALLEN CONSULTING

ACIL ALLEN CONSULTING IS ONE OF THE LARGEST INDEPENDENT, ECONOMIC, PUBLIC POLICY, AND PUBLIC AFFAIRS MANAGEMENT CONSULTING FIRMS IN AUSTRALIA.

WE ADVISE COMPANIES, INSTITUTIONS AND GOVERNMENTS ON ECONOMICS, POLICY AND CORPORATE PUBLIC AFFAIRS MANAGEMENT.

WE PROVIDE SENIOR ADVISORY SERVICES THAT BRING UNPARALLELED STRATEGIC THINKING AND REAL WORLD EXPERIENCE TO BEAR ON PROBLEM SOLVING AND STRATEGY FORMULATION.