

Manager
Foreign Investment Policy Unit
The Treasury
Langton Crescent
PARKES ACT 2600

IN CONFIDENCE AND WITHOUT PREJUDICE

SUBMISSION

I reside in Melbourne and I am writing to provide some feedback about the impact foreign investment in real estate on the housing market based on my direct observations, newspaper reports and anecdotal evidence.

I have major concerns that very high immigration and relaxed rules governing foreign investment are the two major **drivers** of rising house prices and housing unaffordability. House price inflation occurs **when demand exceeds supply** which is what is happening at the moment.

Governments are proposing to tinker around the edges by increasing taxes on investors that may throw up many unintended consequences, providing incentives to encourage older people to sell their homes and downsize, releasing more land and simplifying the planning rules by cutting red-tape. None of these measures will solve the housing affordability crisis as any impact will only be temporary and population increase coupled with foreign investment will ensure that any increased supply will quickly dry up. The current circumstances make it much harder for first home buyers and upgraders to get into the market. As a consequence many people have given up and decided to stay-put, others have decided to knock down their own house and rebuild. This further slows down vertical movement in the market as previously many buyers bought a home, built-up equity and then sold their first home in order to upgrade to a more expensive home thus creating a new opportunity for an entry level buyer.

In 2015, the rules and regulations governing foreign investment in residential real estate were tightened-up however the changes did not go far enough and it was business as usual. My partner and I live in the Ashburton/Glen Iris area. We have attended many auctions and more often than not properties have been bought by cashed-up foreign investors with the firepower to outbid the locals. Based on my observations, is quite obvious that many of these buyers are foreign investors due to their apparent lack of understanding of the auction process and less than fluent English. According to some local agents overseas buyers fly-in on a Saturday for the express purpose of buying a property and fly-out the following day. Many properties are purchased sight unseen or off-market for the purpose of land-banking. Despite the changes to the rules foreign investors continue to dominate the real estate market in sought after suburbs. This is not happening across the board. The figures may not reflect the true situation as foreign investors are more likely to favour properties in a suburb like Kew that offers proximity to good-schools as opposed to an outlying suburb like Tarneit.

The rules state that foreign investors are not allowed to buy established homes **unless** they are planning to demolish the existing home and redevelop the site within two years. This loophole encourages overseas investors to buy older homes in blue-chip suburbs that are in very good condition only to demolish the house, moonscape the block by stripping the trees and vegetation in order to build a new house. Many locals are upset and angry because they fear they are losing too many heritage homes to redevelopment that is not compliant with neighbourhood character along with the loss of the lovely gardens and trees. Local councils can do nothing about it if the new dwelling is compliant with the current building regulations. This type of activity does not increase housing supply.

The rules also allow temporary residents to buy property if they are living in Australia or if their children are studying in Australia provided they sell the property when they leave. This further adds to demand pressures and ensuring compliance has caused problems for the government in the past.

It has often been argued that encouraging foreign investment in residential real estate increases housing supply, however, it must increase the supply of the **right** type of properties. We need dwellings that are more spacious and of a high enough standard to be suitable for medium to long term human habitation. We also need more **diversity** of housing for both buyers and renters to accommodate single people, downsizers, couples and families who want adequate living and storage space. From my observations and based on newspaper reports, we are facing a massive over-supply of investment grade one-bedroom dogbox apartments that are unpopular with local buyers and renters and an undersupply of family friendly spacious three bedroom apartments and well located houses. This imbalance needs to be addressed by introducing tough new minimum standards governing the size and amenity of new apartments. The anecdotal evidence would suggest that many apartments owned by foreign investors are left vacant to maintain them in “as new” condition based on studies of water consumption.

It is to be hoped that my comments have been helpful and I would strongly recommend that if the government is **really serious** about improving housing affordability it will drastically reduce immigration to a sustainable level coupled with an active policy of decentralisation to take the pressure off cities such as Melbourne, Sydney and Brisbane. It also my recommendation that foreign investment should be restricted to ease demand pressures.