

20 March 2015

Manager
International Investment and Trade Unit
Foreign Investment and Trade Policy Division
Markets Group
The Treasury
Langton Crescent
PARKES ACT 2600

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Dear Sir/Madam,

Strengthening Australia's Foreign Investment Framework – Options Paper February 2015

The Urban Taskforce is pleased to make this submission to the Government as part of its investigation into foreign investment in residential real estate. We strongly advocate for government policy and legislation that supports residential development. We argue that investment in new residential development projects assists in the delivery of much needed housing and also stimulates growth of our construction industry. In New South Wales we face a critical housing shortage. For many years the New South Wales development industry was not able to produce sufficient housing to meet demand. Prohibitive planning policy resulted in a massive supply problem driving the cost of housing to such a level that for a great proportion of the population housing has become unaffordable.

This is the context in which the Government must consider its foreign investment policy, particularly how it applies to residential real estate. We argue that the current policy is good government policy as it is supporting the production of new housing. However, the introduction of new fees and penalties suggested in the options paper will send a negative message to the foreign investor.

Cost of compliance and enforcement must be reasonable

The Urban Taskforce supports the strengthening of compliance and enforcement measures. However the cost of such should be reasonable and not fall solely upon the applicant. Furthermore, if the fee structure suggested by Government is simply a "user pays" cost recovery system, then there is no justification for a sliding scale fee structure dependant of property value. That is, processing an application to invest in a \$500,000.00 property is no different to an application to invest in a \$3,000,000.00 property. The application remains the same, regardless of the value of transaction, therefore there is no justification for a variable fee structure. It is argued that a variable fee structure is simply a tax on development. The higher the value – the greater the tax.

Notwithstanding the above, the quantum of fee suggested in the options paper is considerably greater than originally proposed. Suggestions of fees from \$5000.00 to \$50,000.00 per application are vastly greater than previously suggested and can only be seen as a tax on foreign investment.

The Urban Taskforce says that a fee in the vicinity of \$1000.00 is more consistent with an equitable, cost recovery fee structure.

It is also noted that the proposed compliance and enforcement activities would be provided from within the Australian Taxation Office, relying upon existing data matching systems. If the system exists, then the justification for excessive fees suggested comes into question.

The Urban Taskforce has no objection to the Government monitoring and enforcing its foreign investment laws, however the cost of enforcement must be reasonable and justified. At the very least, the Options Paper should have been supported by cost analysis to support the case for the fees suggested.

Undesirable messages being conveyed to foreign investors

The Government accepts that foreign investment is essential to the prosperity of our nation. However, while this review and the resulting Options Paper is said to be simply a review of the effectiveness the existing policy, we fear that this review continues to be reported in the media as a review of Chinese investment. Media coverage on this matter has been one-sided, suggesting that there is a flood of unregulated money from China causing real estate prices, especially in Sydney, to soar. While we accept that the Government is not directly responsible for what may be reported, we must remain cognisant of the message being received by potential foreign investors. We have it on good authority that this review and Options Paper is painting Australia in a very negative light and many Chinese investors are considering other countries for investment.

The Urban Taskforce urges the Government to consider foreign investment generally and ensure that the message is clear; Australia welcomes foreign investment, including investment from China.

The existing policy does favour investment to new development and should be kept

The overarching principle of Australia's foreign investment policy, as it applies to residential property, is that the investment should increase Australia's housing stock and in this regard, the policy channels foreign investment into activity that directly increases the supply of new housing (such as new developments of house and land, home units and townhouses). We support such a policy and agree that it brings benefits to the local building industry and its suppliers.

A government policy that enables foreign investors to seek approval to purchase new dwellings and vacant land for residential development should continue. By generally prohibiting foreign investors from buying established dwellings as investment properties or homes will continue to skew development to new housing delivery. The data provided in the *Foreign Investment Review Board Annual Report 2012-13* supports this argument. In the 2010-11 reporting period only \$3.77 billion of foreign investment went to existing housing while \$12.54 billion went to new developments. This was much the same in the following period with \$4.18 billion of foreign investment going to existing housing with \$13.46 billion going to new developments.

If the Government wants to tackle housing affordability it must focus on ways to increase housing supply. Foreign investment in new housing is a valuable means of supporting the delivery of new housing stock.

Yours sincerely

Urban Taskforce Australia



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