Foreign Investment Declining

Over the past 12 months, approvals for foreign investment in Australian residential real estate have dropped by more than $47 billion, down from nearly $250 billion to around $193 billion. Residential properties represent the majority of that fall from $72 billion to $25 billion.

The Foreign Investment Review Board (FIRB) attributes a number of reasons to this decline but undoubtedly the biggest factor has been the introduction of application fees in 2015.

The fees now involved in making an application to FIRB are on a sliding scale beginning at $5,500 for properties under $1million, $55,700 for properties valued between $5million and $6million, $100,400 for properties valued between $9million and $10million and so on.

According to the FIRB, prior to the introduction of fees in December 2015, individuals often made several applications earlier in the process when considering multiple properties, even though they might have only ended up purchasing a single property.

This suggests that the resulting reduction in approvals may not imply a corresponding reduction in actual investment in residential real estate. That is, the actual decline is likely to be lower than implied by the data although a drop in foreign investment is still a reality for the Australian market.

The second most significant barrier to Chinese investment is the requirement for buyers to purchase new dwellings only. These properties are not considered new if they're redeveloped or renovated, although there are some exemptions that can be applied for under the FIRB rulings.

"We have never really experienced 'true' Chinese investment like Sydney and Melbourne in the western suburbs because we don't have off-the-plan projects that they are attracted to because of visa regulations," said TM Residential Director Tonia McNeilly.

Unfortunately, the Chinese Government is also making it harder and harder to get money out of China, so investments are generally down.

"We're also experiencing the same with the Indonesian buyers of late due to the tightening of visa restrictions, which has unfortunately deterred Asian investment overall,".

Foreign buyers often capitalise on strong exchange rates when purchasing, so without their injection of funds our prestige properties tend to slow, although this is a decline we have seen for the past ten years.

"We also need to be mindful of the distinction between foreign Chinese (meaning they live in China) and local Chinese (that reside in Australia)" added McNeilly.

"Over the past few years sellers have confused the two and been sold a fantasy that rich Chinese will buy their homes; they simply can't unless it's a new development or new build and this significantly limits what's available in the western suburbs.

"Some Chinese families bought substantial homes in the western suburbs many years ago and sent their children to high school and university but these are few and far between with the current rulings."