



Sydney's skyrocketing house prices are worrying, but Chinese buyers aren't to blame

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Sydneysiders have good reason to be upset by sky-rocketing house prices. The Australian Bureau of Statistics says that the cost of entering an already expensive market has jumped a further 30 percent since the end of 2012.

Blame the Chinese. That's what a protest planned for this Saturday outside the Chinese Consulate in Camperdown intends on doing. There's a trend here. It was only a couple months ago that State Opposition leader Luke Foley decided to play the China card in an attempt to derail Premier Mike Baird's electricity privatisation plans.

A report by Credit Suisse earlier this month appeared to provide some hard evidence that Chinese buyers were rampant. They said that in 2013-14 Chinese buyers snapped up property worth 23 percent of new housing supply in NSW.

But there's something amiss here.

If it's new house and apartments we are talking about, then that's exactly what Australia's foreign investment rules encourage foreigners to buy. And for good reason: it takes money to build new housing and so adding foreign money to domestic money leads to more new housing being built.

The effect of this rule has been tested again and again. Just last year a parliamentary inquiry into the effects of foreign investment in residential real estate last year concluded: "Rather than causing price pressures, the evidence suggests that foreign investments may actually help keep prices lower by increasing supply".

When it comes to most markets, such as iron ore, everyone recognises the laws of demand and supply at work. Investment in new mines a few years ago led to an increase in supply and the price of iron ore is now falling as a result. Yet when it comes to the housing market basic economics goes out the window.



Try also cross-checking Credit Suisse's numbers with National Australia Bank's (NAB) Residential Property Survey. According to NAB, overseas buyers currently account for 19.5 percent of new housing demand in NSW. That means eight in ten buyers are locals. And the two from overseas represent all countries, not just China.

The latest annual report of the Foreign Investment Review Board says that approved Chinese investment in Australia's real estate sector accounted for less than 17 percent of the total. In other words, more than four out of five foreign investment dollars going into Aussie real estate do not come from China.

And when it comes to the existing houses in which most Australians live, NAB says that overseas buyers are responsible for just 11.2 percent of total demand in NSW. That's not surprising: with only a few exceptions foreigners are prevented from buying existing housing.

For all the talk of the rules being rorted by Chinese buyers, it shouldn't be missed that just one illegal transaction has been identified so far. That was for a \$39 million mansion in Sydney's Point Piper. Treasurer Joe Hockey says that another 100 cases are "under investigation". If rule-breaking was so commonplace, you'd expect to see a whole lot more than that.

Beyond these facts there are only rumours.

A popular one is that Chinese immigrants are buying real estate on behalf of "someone" back in China. It's never explained why only the Chinese might do this and not the Americans or Japanese. In any case, to get an idea how widespread the practice might be, ask yourself this: would you give an acquaintance living overseas, or even a good mate, more than half a million dollars to buy an asset to which you would hold no legal claim?

There's one obvious reason why Credit Suisse's estimates of Chinese buying are so much larger than any other source. They include purchases by Chinese immigrants. Let's put that another way: they include purchases by Australian citizens and permanent residents.

It's true that immigration can push up the demand for housing. But take a look at arrival numbers and you'll find that since 2008-9 fewer than one in eight immigrants have come from China. Chinese arrivals have been on par with those from New Zealand and the UK. So again, why single out the Chinese?

Housing affordability is a real problem. The real reasons are right in front of our eyes - limited land releases, zoning regulations, development charges, record low interest rates and tax breaks to property investors. There's not a Chinese buyer amongst them.

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