

LOCKED OUT

Will foreign investor 'bolt holing' of inner-city units create a time bomb in our markets?

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Night drives aren't always educational, but try this social experiment next time you have the accelerator set to take-me-home mode in Melbourne or Sydney. Look around at the new near-CBD residential towers creeping ever upward – high, modern... and dark.

According to property players, there are increasing numbers of silhouettes defining our skyline – “ghost towers” full of empty, foreign-owned apartments in cities where affordability is of growing concern.

■ BOLT HOLING

“Bolt holing” describes the strategy by foreign investors of buying property in order to park their capital in the Australian market, but then leaving the holding vacant. The result has seen an increasing number of empty new units in our major capitals.

With Chinese buyers in particular, the idea of generating rental income isn't high on the priority list – as long as the dollars are safely locked into real estate an overnight plane ride away. One anonymous Hong Kong-based source says the practice is very common there as well. In China, there's no annual property tax so holding costs are low.

In many cases, Chinese buyers of Aussie property are flush with cash and consider the idea of a tenant to be too much trouble.

“They're investments, or some means of acquiring residency, or both,” the source says.

He goes on to point out that Chinese buyers also don't like to buy “second-hand homes”.

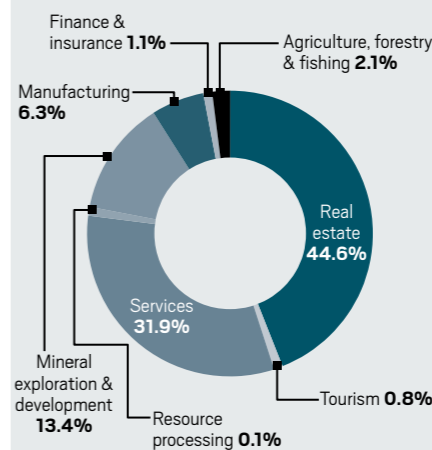
The problem isn't restricted to inner-city units, of course. The effects are, however, more noticeable in city high-rises due to concentration of residents.

Under current foreign investment laws, buyers can only acquire new stock, not existing housing.

The process in dealing with the Foreign Investment Review Board (FIRB) is one of notification – that is, the buyer must notify the FIRB of the intention to purchase to gain approval. Alternatively, a developer may make an application to the FIRB for the purpose of selling a project to overseas buyers. An entire development may end up being sold offshore, although current guidelines do require the developer to advertise the project locally as well.

REAL ESTATE RULES!

Real estate is the number one sector for foreign investment by an embarrassingly long way. This chart shows total foreign investment approvals by value by industry sector in 2013-14.



Source: Foreign Investment Review Board Annual Report 2013-14

■ THE NUMBERS

The FIRB publishes financial-year reports, so the most recent numbers at the time of writing are for 2013/14.

Real estate was the dominant growth sector for foreign investment, with approvals almost doubling from 12,025 in 2012/13 to 23,428 the following year, inclusive of both commercial and residential property. Proposed investment in residential real estate also increased from \$17.2 billion to \$34.7 billion for the same period. The 2013/14 financial year was the first to see China become the largest source country for investment, with \$27.7 billion coming from the sovereign state.

More telling is the data for residential approvals granted to developers looking to sell new and off-the-plan units overseas. This figure rose in dollar terms from \$5.73 billion in approved investment to \$16.38 billion in 2013/14.

What is clear is that the numbers are trending upwards, with Sydney, Melbourne and, to a lesser extent, Brisbane featuring heavily.

API spoke to Brian Wilson, chairman of the FIRB, who says the 2014/15 figures are likely to be even higher, but he believes the overall impact of transactions is overstated.

“Within the context of a total housing stock of nine million units, 500,000 or 600,000 transactions a year and 100,000

new properties, the sort of numbers that we're seeing, 20,000, 30,000 properties by foreigners... it's not extraordinary.”

Pete Wargent, buyers' agent at AllenWargent Residential Property Buyers, says the trend is, however, pretty obvious.

“If there were any doubts about the potential scale of Chinese investments, they were obliterated by that report because Chinese capital is now the number one driver of foreign purchases among these properties.”

The effect is compounded by what some see as an unlevel playing field that benefits overseas developers looking to sell offshore. These companies aren't tied to local lender guidelines, such as 30 per cent presales. In addition, they may borrow at lower interest rates and the fall of the Australian dollar has made our property even more attractive.

While the numbers may look scary, the idea of our new units being keenly sought by overseas buyers isn't necessarily bad, according to Wilson.

“The creation of new housing stock is generally seen as a good thing, it's good for economic development and it's good to keep the housing stock up... I think the general view is that in a growing market such as we are in in most places, we have a shortage of housing stock.”

Wargent agrees there are benefits, but also believes a balance needs to be struck between unit demand and broader social demands.

“We have to question whether we really need that many shoe-box apartments and whether we should be trying to find ways to build and develop for all different demographics, because not everyone wants to live in that property type.”

■ CATCHING DATA

One of the difficulties around the ghost tower discussion is that reliable data on empty investment units is unavailable. The FIRB isn't charged with recording the intended uses of the purchased units. If this information was to be gathered, the current system would need to ask the purchasers of their plans directly, creating a sort of honour system.

If the numbers are to be tracked, recent changes in legislation will most likely see responsibility for identifying “dark” units fall to a new task force within the Australian Taxation Office (ATO). Wilson says they're better equipped to deal with compliance and monitoring.

“No one’s been able to come up with any hard evidence that it’s actually occurring in Australia.”

BRIAN WILSON, FIRB CHAIRMAN

“The total number of staff in the foreign investment division of the FIRB secretariat is about 35, and the total number of staff involved in residential real estate of that was about five. There are 500,000 residential property transfers each year in Australia. Now, to actually look at those, to analyse those in detail, requires a lot of people and a lot of resource.

“I think moving that residential to ATO is a great outcome.”

■ POTENTIAL PROBLEMS

Wilson says even though the “dark unit” data isn’t being tracked, he remains unconcerned. He, in fact, isn’t convinced it’s entrenched.

“I do note that in the house economics committee, when it had its inquiry into housing with the committee chaired by Kelly O’Dwyer about 12 months ago, there was a lot of anecdotal concern around properties bought by foreigners being left vacant, but despite all the attempts, they didn’t receive any material evidence that that occurred much at all. I’m sure it does occasionally... [but] no one’s been able to come up with any hard evidence that it’s actually occurring in Australia.”

No hard data perhaps, but many on the ground believe it’s an established practice that shouldn’t be left unchecked.

Miriam Sandkuhler, founder of Melbourne buyers’ agent Property Mavens, sees the idea of vast numbers of vacant units as both a hurdle and an opportunity.

For starters, she says our vacancy rate numbers in the big city centres will be skewed, because these units aren’t being counted. She sees urban renewal areas in Melbourne, for example, at risk of having tumbleweed blowing down the main street, too.

“Fishermans Bend coming up is a precinct that’s going to be listed for sale in the future... If something isn’t done about managing all these vacant properties then there’s nothing to say that it won’t become a ‘ghost’ precinct.”

Another concern could be a lack of

participation in owners corporations. Sandkuhler says many overseas investors may also be ignorant of the regulations around owners corporations and bodies corporate.

“If they’re foreign investors and they’re overseas and they can’t be contacted, and they’re not contributing to owners corporation fees and they’re not contributing to special levies and they’re not contributing to insurance fees, that means you’ve got the owners corporation spending a lot of time, money and energy on behalf of all the other owners chasing these people to contribute what they’re legally obligated to contribute.”

Wilson, on the other hand, doesn’t believe any oversupply will have a major impact on the market because the units aren’t drawing on existing housing stock. He sees that foreign demand has created the stock so, in reality, the market is in balance.

“They’re being built on the back of existing demand by purchases and if they weren’t, if the underlying foreign buyer wasn’t buying them in the first place, they just wouldn’t be built.

“I actually think these dark apartments, to the extent they exist, are a temporary addition to the housing stock that’s actually not being used, that wouldn’t even exist were the buyers not buying them in the first place.”

■ SOLUTIONS

Regardless of whether you side with the free-market FIRB, or you’re startled by the oversupply implications, there are suggestions on how we should treat a rise in dark apartments.

Sandkuhler says the first step should be educating foreign buyers – a program whereby overseas investors can gain a better understanding of how our market works and the advantages of renting out their property.

“We should be educating foreign investors when they apply to purchase a property through the FIRB scheme. They should be getting a little guide on how to go about renting your property for additional income.”

Wilson agrees that education is important, but believes implementing a wide ranging program has its challenges.

“I think increased education is always a good thing... but finding a way to actually tap into that portion of the billion or so Chinese that might be interested in buying a property here is a pretty big task.”

Sandkuhler also sees an opportunity with these vacant properties – a chance to alleviate affordable housing woes.

“We have a very high demand for affordable housing requirements... there’d be 27,000 to 28,000 Victorians who are currently homeless as a result of a variety of circumstances.

“As of March 2015, the public housing wait-list was just sitting at 33,900. The data for affordable lettings in March 2014 indicates that only four per cent of one-bedroom rentals and only 12 per cent of three-bedroom rentals are actually affordable... Let’s create incentives for those properties to be occupied.”

Finally – shouldn’t we encourage all investors to conduct research and seek reliable, independent advice? Overseas buyers should have adequate access to professionals helping them to understand fair value and market rent as well as effective ways to manage their asset and generate income.

■ IN CONCLUSION

Wilson doesn’t believe the issue of dark units or towers is a problem that can’t be surmounted by normal market forces.

“It’s not economically rational for someone to own a property that they don’t live in and they don’t rent out for very long periods. I’m not saying it doesn’t happen from time to time, but sooner or later, over the long-term, economic rationality tends to win out.”

Others aren’t so sure. In an industry where data could occupy an entire edition of any major daily newspaper, shouldn’t we at least identify if there’s excess stock lying in the shadows and decide whether it’s a real threat before choosing to ignore it? Shining a light on dark towers seems a logical move. **API**