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**Juwai.com response to:
“Strengthening Australia’s Foreign Investment Framework” Options Paper**

With the proposals outlined in its Options Paper, the Government runs the real risk of strengthening Australia’s foreign investment framework, at the cost of weakening its economy.

We encourage the Government, like physicians, to follow a policy of, “First, do no harm,” and of diagnosis before treatment.

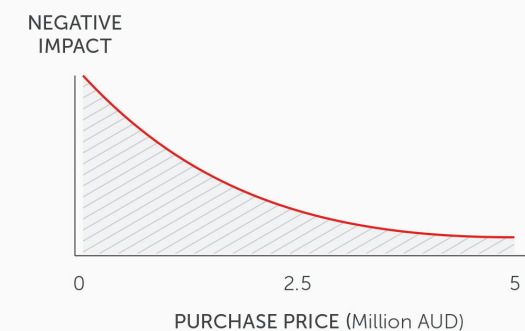
Foreign-buyer driven residential construction is a major source of employment and GDP growth in Australia at the moment. It is also the principal source of new home construction, which plays – in the Government’s own words – a “vital” role in increasing supply and helping moderate home prices.

By risking deterring foreign investment with new fee and regulatory structures, the Government may kill the goose that lays the golden eggs – at an especially dangerous time for the economy. Worse, the government has no factual basis for its policy: no firm statistics on foreign buyer activity, and no proof of widespread foreign buyer misbehaviour.

The stakes are too high to get this wrong. We encourage the Government to put on hold the majority of the proposals in its Options Paper. Instead, we suggest it implement an offshore buyer register for a period of at least two years, gather reliable data on overseas investment and then enact policies based on what will be the country’s first accurate measurement of international investment.

This would have the added benefit of making violations of the existing FIRB rules even less likely, as all offshore buyers will be recorded and thus more easily investigated, if necessary. Most importantly, by acting on the basis of fact, the Government may avoid the potentially job-destroying impacts of a significant reduction in foreign investment.

**Projected Impact of Government Proposals
on International Buyers by Price Range:**



The Proposed Policies Would Reduce Investment

There should be no question whether the policies proposed in the Options Paper will reduce international investment. We believe they will, and especially with buyers in the sub-\$1.5 million range, for three reasons:

1. Taxes and fees discourage rather than encourage activity. The Government proposes a \$200 million annual tax on an activity it says "plays an important and beneficial role in the Australian economy." (Option Paper, p. 1).
2. Unfair fees reduce activity more than fees broadly considered to be fair and equitable.

It would be unacceptable to charge one Australian citizen a fee against a property that another purchases. Yet, that is just what the Government proposes to require of offshore buyers.

It proposes to charge offshore buyers every time they apply for approval to buy a property. But, like all buyers, offshore buyers may have to apply two, three, five or even more times before they are able to successfully complete a purchase. That means, for those unsuccessful transactions, they will be paying fees against properties that ultimately someone else buys.

3. The rhetoric and tone of the Government and its supporters has made overseas – and also domestic – Asian buyers feel targeted.

This discourages investment and suggests that overseas buyers in Australia face sovereign risk. Foreign investors are alert to the potential that future and unpredictable rules changes may affect the value or liquidity of their investments.

How the Government's Proposals Discourage Offshore Investment:



\$200 million tax per annum



Unfair fees without connection to successful property purchase





Negative rhetoric and tone of public discussion

International Investment Is "Vital" to Australia

Given the evidence of the crucial role offshore buyers play in the Australian housing market, collected during the recent Parliamentary Inquiry into Foreign Investment in Real Estate, it is remarkable and disturbing that the Government is pursuing a policy that may discourage these buyers.

The Inquiry reported that, "One of the likely outcomes of any restrictions on foreign buyers could ... be further price increases" and "housing supply issues that ... would worsen." It also found that foreign investment is "a vital component of this sector of the economy."

1  = **4** 

1 Foreign Buyer Purchase

4 Homes for Australians Built

Moreover, the Inquiry found little downside to offshore investment. Regarding first-home buyers, it concluded that foreign investment "is not causing the market distortions ... for first home buyers." In fact, overseas investment "keep[s] prices lower by increasing supply" and operates in markets that "are largely separate" from first home buyers.

If foreign investment were withdrawn, the Inquiry concluded, "The housing supply issues that have been ongoing in Australia would worsen."

In truth the foreign investment system in Australia has been serving the national interest by creating jobs, corporate and Government revenue, new housing supply and opportunities for first-time buyers.

Every new home that a foreign investor has purchased enabled up to four other homes to be built for Australians, reports the Property Council of Australia. Foreign buyers created between 15,000 and 20,000 homes for Australian buyers in 2014 alone.

The inescapable conclusion is that the policy options described in the Options Paper risk reducing offshore investment and thus leading to:

- Lower housing transaction volumes
- Less new residential construction
- Higher housing prices
- Greater difficulties for first-time buyers
- Rising construction unemployment
- Lower GST revenues (due to the loss of durable and household goods sales that accompany home purchases and household creation)

Foreign buyers in 2014 enabled

20,000

homes for Australians



About Juwai.com

Juwai.com is an Australian-owned business that is headquartered in China. We facilitate more Chinese international property purchases than any other entity in the world. We also facilitate purchases by international Chinese-speaking populations, including Australians who speak and read Chinese.

We believe we are uniquely positioned to provide informed advice to the Government on its Options Paper. We sincerely hope our insights can be of use to our Government as it considers its new policy.

Yours sincerely,

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Attachment A

Directly Relevant Excerpts from the Recent Parliamentary Inquiry into Foreign Investment in Real Estate:

"The evidence points to a continuous lack of supply in Australia as a key driver of price increases. Importantly, foreign investment is regarded by industry experts as vital to increasing this supply. Rather than causing price pressures, the evidence suggests that foreign investments may actually help keep prices lower by increasing supply." (p. 88)

"The committee was interested in any negative impacts of competition from foreign buyers on Australians seeking to purchase a first home. The evidence suggests however that these two investor markets are largely separate." (p. 92)

"The focus of this inquiry is whether foreign investment in Australia's residential property market brings benefits to the housing market. The committee is satisfied that it does and that it is a vital component of this sector of the economy." (p. 95)

"Importantly, the committee is also satisfied from the evidence received that foreign investment is not causing the market distortions that have been advocated in some quarters, particularly for first home buyers." (p. 95)

"Although foreign buyers represent only a small percentage of the housing market, they are vitally important to the continuing development of this sector. The housing supply issues that have been ongoing in Australia would worsen if foreign investment was curtailed. (p. 95)

"One of the likely outcomes of any restrictions on foreign buyers could therefore be further price increases – the opposite to what some in the community believe would occur if foreign investment was further restricted." (p. 95)

"Foreign investment is needed for future residential developments to proceed and to therefore increase Australia's housing stock." (p. 96)