Here is a snapshot of the Australian context. Two years ago, Singaporean developer Koh Wee Seng began to sell off-the-plan the 1100 apartments in his ‘108 tower’, a 101-storey residential building in Melbourne, selling 98 percent within 12 months – mainly to Asian property investors. Today, his brother, Koh Wee Meng, is struggling to find off-the-plan buyers for his 78-storey ‘Beyoncé’ atower (named for its curvy design) just over the river from Tower 108.

Asian capital and investors seem to be shifting their course from Australia, for reasons I will outline. But the global finacialisation of housing maintains its affect on Australian cities. Melbourne and Sydney in particular are struggling with badly planned precincts, a continued under-supply of affordable housing, toxic cultural politics around Asian global capital, and unresolved pressures on social and physical infrastructure.

The work of many of our colleagues here on geographies of the ‘financialisation of housing’ focuses on the repercussions of the GFC mainly in the US and Europe. Dallas’s work in Sydney analyses global real estate industries – global sales agents, lawyers, migration agents, banking and financial services – to understand the way ‘planetary hyper-commodification’ plays out in Australia, especially as it manifests in the treatment of the dwelling as a global commodity within which to store and grow foreign capital. In linking financialisation and commodification, we have a shot at connecting cause and effect.

**Slide 2. Financialisation of housing = global real estate industries**
**Planetary hyper-commodification = dwelling as repository for capital**

In Australia, the financialisation of housing is enacted in significant ways through global and local real estate industries. My work examines the national policy settings that encourage and exacerbate the commodification of housing on the ground – if you like, the regulatory context for the operation of the global and local real estate industries that facilitate the financialisation of housing in Australia. The object is understand how regulation affects accessibility and affordability of houses and apartments that have become investment product: the fundamental of hyper-commodification that is now, indeed, a planetary phenomenon.

Today we bring these two processes – the financialisation of housing and planetary hyper-commodification – together in an analysis of the effects of tax and regulatory policies on housing markets in the Australian capital cities of Sydney and Melbourne.
Australia not only made a more rapid post-GFC recovery than most OECD nations, but was minimally affected in the first place. Notwithstanding the current right-wing government’s economic crisis sensationalism around the GFC – which disappears in a puff when funding is requested for unsolicited developer proposals for new road infrastructure, or a mega-coal mine in Queensland offered by mining magnate billionaire Adani – the national stimulus package that was rolled-out under the centrist Labor government from 2008 to 2012 played a significant role in minimising its impact. Part of this package was rare new funding for social housing.

As a consequence, Australia didn’t experience anything like the real estate price depression and housing repossessions as did the US and Europe. On the contrary, major Australian cities became recognised internationally as comparatively safe places to invest. Along with Canada, Australia has continued with very strong real estate price growth – a result of increasing international and sustained domestic investment in urban residential property. Housing market failure clearly has a tight geography that is currently limited to the US and some European markets. The financialisation of housing is indeed spatially variegated, as Manuel has argued, differing by continents, countries and cities.

The commodification of housing in Australia is produced by global and local financiers / speculators and developers on the supply side, and fuelled by two key demand-side processes: foreign and domestic investor purchases of residential property. High levels of foreign investment come mainly from China and America, with nationals in both countries looking to get their money out of unpredictable economies and unstable real estate markets and into safe investment markets where there is a good prospect of capital gain on resale. Even if the capital gains don’t transpire, these investors have a pretty good expectation that the money will still be there when they want it.

The annual reports of the Australian Foreign Investment Review Board (FIRB) show the volume of foreign investment applications. The number of foreign investment approvals increased substantially over the last decade, driven largely by residential real estate transactions. In 2016, which is the latest published data, this represented $248 billion of proposed investment, up from $192 billion the year before. For the third year in a row, China was the largest source of approved investment in the real estate sector.

Over 40,000 residential real estate applications were approved in 2016 for investment, worth more than $72 billion. Around 85 percent of these applications were for either newly-built dwellings / new residential construction on vacant land, or redevelopment of existing residential property – in accordance with Australia’s foreign investment policy intent to increase housing supply, with rules to that effect. Most foreign investment in existing housing is not allowed. The FIRB says that even so, real estate has remained the largest industry sector by number and value of approvals, increasing in the last year by $25 billion.
Now, this contrasts with actual figures published by the Department of Foreign Affairs and Trade (DFAT), which puts the mining sector as the main target industry for Foreign Direct Investment - though this is slowing; and manufacturing as the second largest recipient, also slowing. DFAT’s data positions the real estate sector third in the amount of total Foreign Direct Investment, though it grew at a rate of close to 45 percent from 2015 to 2016 and is still climbing.

**Slide 5. Australian industries and foreign investment (DFAT)**

Which Australian industries attract foreign direct investment? 2016, A$ billion

<table>
<thead>
<tr>
<th>Rank in 2016</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>% of total</th>
<th>% change 2015 to 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Mining &amp; quarrying</td>
<td>277.3</td>
<td>293.0</td>
<td>310.6</td>
<td>39.0</td>
<td>6.0</td>
</tr>
<tr>
<td>2 Manufacturing</td>
<td>85.0</td>
<td>88.1</td>
<td>91.3</td>
<td>11.5</td>
<td>3.6</td>
</tr>
<tr>
<td>3 Real estate activities</td>
<td>46.8</td>
<td>58.1</td>
<td>84.1</td>
<td>10.6</td>
<td>44.8</td>
</tr>
<tr>
<td>4 Financial &amp; insurance activities</td>
<td>50.7</td>
<td>63.7</td>
<td>66.9</td>
<td>8.4</td>
<td>5.1</td>
</tr>
</tbody>
</table>

The reason for the discrepancy is that, what is approved is not necessarily realised. So approvals overestimate, but so do the actuals underestimate. In the real estate sector, the data depends on voluntary declarations by purchasers and/or real estate agents, many of whom have their own good reasons for not making such declarations.

During 2015-16, for example, 2,104 potential breaches were selected by the FIRB for investigation – this was a sample for research purposes than actual accounting. Of these, 1,637 investigations were completed, with 260 investors found to have breached the foreign investment rules. That’s 16 percent found to be in breach with the FIRB barely lifting a finger. It’s likely much higher than this. The role of monitoring residential real estate purchases has since been transferred to the Australian Tax Office, which has its own problems of under-resourcing. The outcomes of the investigations of the clear breaches were as follows:

**Slide 6: Outcomes of completed investigations in 2015-16**

<table>
<thead>
<tr>
<th>Compliance outcomes</th>
<th>Number of investigations</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concessional divestment (a)</td>
<td>39</td>
<td>15.0</td>
</tr>
<tr>
<td>Formal divestment (b)</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Self divestment (c)</td>
<td>15</td>
<td>5.8</td>
</tr>
<tr>
<td>Retrospective approval</td>
<td>147</td>
<td>56.5</td>
</tr>
<tr>
<td>Change of conditions</td>
<td>59</td>
<td>22.7</td>
</tr>
<tr>
<td>Total outcomes</td>
<td>260</td>
<td>100.0</td>
</tr>
</tbody>
</table>
Where:
(a) Concessional divestments are for self-disclosed breaches from investors during the reduced penalty period between 2 May 2015 and 30 November 2015.
(b) Formal divestments are those where a formal disposal order was issued under the Act.
(c) Self divestments are where an investor disposes of a property during an investigation.

Beyond a few self-divestments, from people perhaps wanting no scrutiny, nearly 80 percent of breaches were allowed anyway. The number of formal disposal orders? Nada.

The point here is that, while foreign interest in Australian residential real estate is high, nobody knows the full extent of the acquisitions. The monitoring is weak – and very difficult to carry out effectively – and the deterrents against breaching the limits are next to useless.

What we do know is that foreign purchases are overwhelmingly in the city centres, and mainly in Melbourne and Sydney.

**Slide 7. Number of approvals by State & Territory**

VIC 44%, NSW 32%, QLD 17%

Three-quarters of all residential real estate approvals were for purchases in Victoria and New South Wales. This is consistent with recent years and reflects strong demand for residential property in Sydney and Melbourne, where housing affordability is at its lowest.

**Slide 8.**

Why is this surprisingly laissez faire regime being countenanced? One reason is the increase in housing supply that foreign investment brings – and with it jobs and economic growth, and the spurious argument that more housing construction will increase housing affordability. The second is the fees the system attracts.

**Slide 9.**

Whether the purchase goes ahead or not, the revenue from application fees is phenomenal. This table is just FIRB. Austrade charges a non-refundable fee of $1,000 for applications for Special Investor Visa and premium investor visa nominations (the latter requiring simply that the applicant will invest $5M or more). States charge their own fees on top of these. The market’s going off, and they’re all in it.

***

This situation combines with a highly stimulated local investment environment, in which the taxation incentives to Australian taxpayers to invest in property are apparently irresistible. The not uncommon policy of negative gearing – allowing investors to claim losses against their income tax – has been coupled since the mid-90s with a 50 percent discount on capital gains tax …. Meaning that the effectively infinite level of demand for investment properties that itself pushes up prices, creates its own reward.
Australians now play property like Monopoly. Buying, selling, demolishing, rebuilding, extending and renovating is a national obsession, with the continuing promise of appreciation on resale. The contribution of real estate transactions to Australian GDP is now highest in the world, and three times higher than that in the US.

**Slide 10.** This table puts the size of Australia’s housing market into perspective, by comparing the equivalent ratio in some other OECD nations.

Around one in seven Australian taxpayers owns one or more investment properties. The nation has one of the highest levels of household debt in the OECD, largely due to borrowings for property purchases.

And while some (but by no means all) of this activity is creating new dwellings for rent, the rents are increasing too. The Great Australian Dream – which used to be, in the traditional lexicon, to own a quarter acre block in the suburbs – has become to have at least one investment property. This locks younger and lower-income people out of buying their own home, such that one of the strongest determinants of household wealth now is access to property ownership.

The transmission of capital between generations is clearly an issue here; indeed, the Australian Prime Minister famously said recently that parents should ‘shell out’ and buy their children houses, to give them a foothold in the property market, as a solution to the problem of housing unaffordability.

The push to end negative gearing and the CGT discount has been met by the current conservative government with blanket refusal and references to all the ‘mum and dad investors who are middle-income nurses and teachers’ … which has been pointedly countered by data that shows unequivocally that negative gearing mostly benefits above-average earners, with the greatest beneficiaries of course being those with multiple properties. 13% of taxpayers negatively gear, and the best represented professions among them? Surgeons, anaesthetists, and politicians.

There has been greater political willingness to clamp down on foreign investors, in the face of what is now routinely referred to as Australia’s housing affordability crisis.

**Slide 11.** A suite of changes to foreign investment in real estate was announced in the 2017-18 Australian Federal Budget. These include:

1. curbs on lending to non-resident borrowers
2. introduction of an annual levy for residential real estate that is unoccupied and not available on the rental market
3. a cap on the number of residences in new developments available for purchase by foreign investors
4. a requirement that applicants for the $5 million visa invest in higher risk venture capital products
5. an increase to residential application fees
6. reduced capital gains tax benefits on primary residences of permanent residents.
It’s a bit too early to gauge the effects of these changes, but in Vancouver, which introduced similar changes in 2016, especially limiting loans to foreign investors, there’s been an 18 percent drop in property prices. Dallas has informal off the record discussions with Treasury people in Sydney which suggest a considerable downturn, and we already have anecdotes such as the one I started with.

In Sydney and Melbourne house prices are falling slightly, and off-the-plan sales are not doing so well. Whether this is just part of Australia’s interminable property cycle is hard to tell. Property pundits are already attributing the slowdown to the tighter lending policies, which also include a reduction in interest-only loans to local investors.

So, the causal relationship between tax and lending regulations and housing affordability is not completely clear cut, and certainly what I’ve presented here is no proof, but it does suggest that restraints on the financialisation of housing – regulation, as such, as unfashionable as it is – affects and may reduce hyper-commodification. The role of regulation may be a productive area for research, indeed, on a global scale.

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