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Local buyers could 'lose out' from Budget 2017 housing policies

Foreign buyers were targeted in budget housing policies, but will they work? **Anna Kucera**

by **Su-Lin Tan**

Housing policies announced in Tuesday's budget will do nothing for local buyers and could even hurt them, according to CoreLogic senior research analyst Cameron Kusher.

The federal budget announced a range of housing policies, including a new vacancy tax of at least $5000 if investors don't occupy their residential properties or put it on the rental market for at least six months of the year. Developers that build more than 50 apartments in a single development will also be prohibited from selling more than half to foreign buyers.

Foreign investors will also now be charged capital gains tax made on property when selling their main residence in Australia. Existing properties will be grandfathered until June 30, 2019.

While foreign ownership in a single development rarely goes above 50 per cent, limiting them in this respect may cause developers to rethink large-scale residential towers especially those who have already paid big dollars for development sites which require a certain density to be viable. Foreign buyers may lose out, but so do local buyers, Mr Kusher said.

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"The developer rule will have an impact on the market. Potentially over time, prices will even rise."

'Worrying signal'

That said, this rule would only impact large-scale developers which were only 15 to 20 per cent of the market, developmentready.com.au chief executive Nick Materia said.

These apartments were not as popular with locals as they were with foreign buyers.

The "50 per cent rule" could even stop developers from mass producing "tiny apartments" as seen in parts of Melbourne so that they focus more on apartment design, CBRE Residential Projects managing director David Milton said.

But Chinese Australian property website ACProperty.com.au director Esther Yong, who deals with many foreign buyers, thought the policy gave a "more worrying" signal that the market was still strong in Australia.

"This will only keep them coming back," she said.

Meanwhile, the vacancy tax will do little to change behaviour with the extra fee "pocket-money" to many investors, according to H&R Block director of tax communications Mark Chapman.

"Taking into account the amount spent to buy the property in the first place and the investor's willingness to forego rent, it has to be doubtful whether many of the affected property owners will change their behaviour over an amount that will be pocket-money to some of them," he said.

"There are compliance issues too; there is no register of unoccupied residential properties so it will be a big job for the ATO to match property data to tax returns to identify those which aren't being rented out for the appropriate period."

'Political instability'

The biggest opposition is its administration and that it has no impact on an "inelastic" foreign demand, Credit Suisse analyst Hasan Tevfik said.

Monika Tu of luxury real estate agent Black Diamondz questioned the government's ability to determine "how many days" people were not living in their properties. She also said the return to the pre-2009 regime on the 50 per cent rule for developers selling to foreign buyers would be seen as "political instability" to future foreign investors.

"Changing the goalposts all the time is not good for foreign investments," she said.

Property Council of Australia chief executive Ken Morrison said: "Our only disappointment with the budget is that the government has announced a range of measures aimed at punishing foreign investors."

"These seem designed to provide the government with a few good headlines but these measures will do nothing to improve housing affordability and potentially send a message about Australia's openness to investment."

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Administrative issues

The introduction of the capital gains tax would also cause administrative issues, foreign property lawyer Apex Lawyers partner Chris Sun said.

"With people who hold student, working or investor visas, what will happen when they obtain permanent residence afterwards? Will they have an exemption?" she said.

That said, the government's release of land to increase housing supply could benefit Chinese developers, accounting and advisory firm ShineWing Australia said.

"While the measures adopted in this budget may have some slowing effect on property prices, the unlocking of Commonwealth land for development, combined with changes to assist first-home buyers, will likely generate increased demand for more greenfield residential property development," ShineWing Australia's international liaison partner, David Chu, said.

"Chinese companies are already active in the Australian residential construction sector, and any increased demand from first-home buyers will present new opportunities for Chinese property developers to help meet this."

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