PROPERTY COUNCIL of Australia

GREAT CITIES | STRONG ECONOMIES | SUSTAINABLE COMMUNITIES

Advocacy Alert

NATIONAL

The federal government has announced adjustments to its foreign investment framework

---

The headlines

- The federal government has announced adjustments to its foreign investment framework as part of its Mid-Year Economic and Fiscal Outlook (MYEFO)
- The government will make sure foreign investment application fees for build-to-rent projects are at the lowest commercial level – no matter the kind of land involved
- The changes also include a tripling of foreign investment fees for established homes and doubling of vacancy fees.

The detail

The federal government has announced adjustments to its foreign investment framework as part of its Mid-Year Economic and Fiscal Outlook (MYEFO).

The changes include:

- A tripling of foreign investment fees for the purchase of established homes
- A doubling of vacancy fees for all foreign-owned dwellings purchased since 9 May 2017 (which together mean a six-fold increase in vacancy fees for future purchases of established dwellings)
- Enhancing the ATO's compliance regime to ensure foreign investors comply with the rules, including selling their residence when required.

The government hopes the higher fees for established dwellings will encourage foreign buyers to invest in new housing developments to create additional housing stock, jobs in the construction industry and to support economic growth. The government said increased vacancy fees will encourage foreign investors to make their unused properties available to renters.

In addition, the government will make sure foreign investment application fees for build-to-rent projects are at the lowest commercial level – no matter the kind of land involved.

Until now, the fee structure precluded build-to-rent from the commercial asset class, meaning significantly higher fees.

For example, on a residential deal worth $50 million, the fees associated amount to $1.1 million if treated as residential, however if treated as a commercial deal the equivalent fees amount to $13,200. For foreign investors into build-to-rent developments, which is classed as residential, this has posed a significant impediment.

The government intends to introduce legislation next year to implement the new fees. The application of commercial foreign investment fees to all future build-to-rent projects will apply after 14 December 2023.

Our view

Moving foreign investment application fees for build-to-rent projects to the lowest appropriate commercial level will boost the investment appeal of new rental housing supply that offers well-located, secure, customer-led and community-oriented housing.

The Property Council welcomes the announcement, noting high foreign investment fees are a disincentive for global investment that is needed to achieve our 1.2 million homes by 2029 housing target. Build-to-rent has the potential to create 150,000 homes over the next decade, but the settings must be right. To give people the full spectrum of affordable housing choice we need to tap into institutional investment. Encouraging overseas investment to go into new assets makes good sense.

The Property Council notes that more settings need to change to unlock the potential of global institutional investment into new Australian housing, including critical areas where governments can save money through service aggregation such as retirement living communities and purpose- built student accommodation. The National Cabinet needs to think holistically about the tax settings that can help or hinder investment in creating more homes for Australians – including looming Federal ThinCap changes and finalising the detail of build-to-rent MIT withholding rate changes.

Useful links

- Higher foreign investment fees for housing | Treasury Ministers
- Property Council welcomes federal build-to-rent housing support - warns National Cabinet about rolling avalanche of taxes on new construction - Property Council Australia

---