

1 August 2023

The Hon Dr Jim Chalmers MP  
Treasurer  
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Dear Treasurer

### **Australian International Investment Processes are Adding to the Rental Crisis**

As you are aware, UDIA National has been and remains an active supporter of the Government's housing and economic initiatives. Our focus remains on supporting governments to deliver sufficient new housing supply across the continuum.

Our members are reporting a growing foreign investment administrative blockage for the supply of new rental housing that is derailing investment approvals and Treasury's efforts to manage foreign investment in Australia.

Currently, those that deliver new rental investment dwellings to the Australian market are seeing project investment being undermined by the administration of international investor approval. The issue is not with the validity of the approval itself, but rather the procedural steps involved that cause the problem. Potential investors simply cannot navigate the process as currently set up.

**The solution does not involve changes to the foreign investment rules, but it does require some straightforward changes in the stepped process for approval.**

Critically, the current process prevents the potential investor from allowing their Australian solicitor to engage in the process with the client. Not only is this an investment blocker but also a missed opportunity to build in a natural integrity measure by ensuring the online process is vetted by Australian legal experts.

This is a significant problem, because the majority of overseas owned investment property is made directly available to the rental market, and many dwelling providers rely on international pre-sales to obtain project finance. Every rental property pre-sold to international investors enables a second dwelling to be built for an Australian resident.

### **The Issues in Detail**

The housing industry supplies housing to a wide range of buyers, from both Australia and overseas. Our members find that potential international investors have varying degrees of English-language proficiency, with some overseas buyers having limited or no English skills. For this reason, many overseas buyers are facing significant difficulties meeting the Treasury's

International Investment (TII) and Australian Tax Office (ATO) requirements as well as navigating the MyGov pathway to obtain the necessary reference numbers and linking codes for acquiring residential land.

### 1) The Process Issues

The process is thorough but extremely difficult for investors with limited English to navigate and there are multiple points of failure where the investor is on their own and unable to practically enlist the help of others including the ATO.

In summary the international investor needs to:

- [Step 1: Set up your myGovID](#)
- [Step 2: Log in to Online services for foreign investors](#)
- [Step 3: Add your record](#)
- [Step 4: Confirm your record](#)
- [Step 5: Complete the foreign investor registration](#)
- [Step 6: Using Online services for foreign investors](#)

International investors hit problems almost immediately, and it is worthwhile looking at it from the perspective of a proposed applicant with limited English.

The first step is the Treasury website which specifically requires international investors to:

- apply for the relevant [approval to invest](#) before purchasing an asset – for residential assets this is done through an ATO online portal.
- register the asset on the [Register of Foreign Ownership of Australian Assets](#) (the Register) using [Online services for foreign investors](#) after you purchase the asset
- comply with any ongoing requirements whilst holding the asset, such as lodging an annual [vacancy fee return](#) for a residential property.
- To access the ATO online service the international investor first needs to set-up:
  - a [myGovID](#) to access Online services for foreign investors
  - to complete a one-off [Registration](#).

Critically, to access the ATO online services **the My GovID registration access must be set up by the international investor and an authorised representative cannot do it for them**. Only once they have access can they authorise a representative to access the online services.

In particular, the Google Play Store that is required to download the myGovID app for registration, is blocked by the Chinese government, and Chinese investors have recently been the largest group of overseas residential investors.

International investors simply aren't getting close to registration of online services to be able to use an English-speaking representative.

What's worse, online services for international investors will log out after 25 minutes of inactivity. They must complete their transaction in one session, as they cannot save their progress.

Finally, if the international investor needs to call the ATO for help, they have limited ability to receive help because the ATO needs to (rightly), verify identity of the international investor before accessing records – many simply cannot get through the process without help and even with interpreting services, the ATO has not been able to help the applicant.

**At this point, the international investor has only gotten as far as step 1 – set up a MyGov account. Many may give up there when they cannot sort through the process on their own nor with the ATO by phone.**

## 2) The immediate problems blocking the process

Without going through the entire process, the specific difficulties experienced by member's buyers include:

- With website material changes from 1 July 2023, the platform is still very new and relevant Australian Government staff are still learning how this platform works.
- Some website material is complex and refers to outdated websites – some linking websites no longer exist which impacts stakeholders looping you back to the ATO.
- When international buyers call the ATO from overseas, including on occasion to access Translation and Interpreting Services, the call they make goes to the central ATO Customer Service Centre. In some instances, these buyers have encountered Call Centre Consultants who have insufficient knowledge in the area, and may not be aware of the existence, role and requirements around foreign investment.
- Simple solutions such as the acceptance of three-way calls involving the buyer, their solicitor and the Call Centre Consultant are currently not approved, leaving buyers with limited (or no English), without options to navigate the system and fulfil their obligations as foreign buyers.

## Why is reduced international property investment a Problem?

The blocking of international investment in property is a significant problem for Australia as most foreign investors purchase property that is delivered directly into the rental market. Pre-pandemic, foreign investors had been a regular, reliable support for off-the-plan apartment sales flowing into the general rental market, although the imposition of 'surcharges' slowed these sales considerably which has led to a (predictable) reduction in the supply of new rental housing.

In NSW and VIC, foreign buyers who purchase residential-related property must pay an additional 8% surcharge purchaser duty on top of any transfer duty. During the pandemic, foreign sales slowed to a trickle, exacerbating the tight rental market.

Asian investors are a particularly significant driver of rental property availability. Now in addition to their investment being curtailed by overseas Government restrictions, they are finding it extremely difficult to navigate the approval processes.

Even so, international investment accounts for approximately 4,500 dwellings entering the housing stock each year and every pre-purchased dwelling in a project enables another home to be built for ordinary Australians.

Many developers need to achieve presales of around 50% before a new project will be financed. International investors have often been the provider of pre-sales for many developers. This means that **international investors buying property** have not only been a **net supplier of rental property** to the market but every property pre-purchased by an international investor **enables a second home to be built for an ordinary Australian.**

The accelerating loss of international property investment through process blockers is extremely bad news for the Australian market. Australia is struggling with dropping housing supply, investors exiting the rental market and house prices/rentals accelerating:

- National dwelling commencements are **down 21%** on a 12 month rolling average.
- Dwelling construction is **down 19%**
- Rental listings are **down 32%** on the long run average.
- This has all seen residential land **prices jump 24%** since last year and national house rental pricing has **grown 45%** since March 2020.
- Building has **dropped by 20%** for houses and **22%** units.
- Construction costs have **increased by 28%** on pre-covid and are set to settle into a “new normal” high.
- Job vacancies in the construction sector are **90% higher** than the long run average.
- Permanent skilled visa arrivals currently **30% lower** than the pre-pandemic levels and temporary skilled visas **24% lower** than the long run average.
- Greenfield housing lot prices continue to rise (by 24%), even though **demand** for greenfield land has **plummeted by 50%** all because new supply has **dropped by 40%** since last year.

A closer look at the rental market shows that Australia needs every rental property it can attract. Rental spikes have been caused by tightening supply, an exodus of rental investors and dropping new investment lending:

- investor lending nationally is **down 19%** on a 3-month rolling basis and is now **18% lower** than the long run monthly average.
- lending for the construction of new dwellings and the purchase of newly constructed dwellings both **down 28%** on a 12-month rolling basis.
- **45% inflection** in asking rents across all types of residential dwellings since march 2020 – the biggest three year rental price growth on record.
- The shortage of rental property across the nation is precipitating a massive rental price spike, which is being led by a drop in new investor and owner occupier properties.
- mum and dad investors are the primary mechanism for delivering new rental property to the market, this is creating a constraint on supply.

## Potential Solutions

It is critical that Treasury facilitate international purchase of residential property at this time given we need more housing, not less.

Importantly, the solutions are relatively straightforward and include:

1. Provide all call centres with a script for helping international investors navigate the new process.
2. Enable three-way calls with the ATO, international investor and a recognised legal representative – similar processes exist for enabling interactions with government departments for third parties with power of attorney, and can be adapted.
3. Enable the MyGov set-up and ATO portal set up to be done with a third-party legal representative.
4. Workshop with industry, ATO and Treasury on further ways to streamline the process of approval to keep productive international investment flowing.

We are keen to meet with you to discuss this issue at your earliest time.

Please let us know when you can set up a meeting to discuss.

In the meantime, please contact the UDIA National Head of Policy and Government Relations - Andrew Mihno on 0406 454 549 to discuss any aspect of this letter further.



**Maxwell Shifman**

UDIA National President