Chapter 2

Foreign investment
proposals

Foreign investment proposals

This chapter provides an overview and statistical information on applications considered in 2007‑08.

## Features of these statistics

While this chapter provides a useful source of data on foreign direct investment in Australia, the Board urges particular caution in the use of these statistics, including when making comparisons with earlier years as policy, data capture and reporting methodologies change over time. As set out in Chapter 4 of this report, there are also substantial differences between the Board’s statistics and actual investment flows. The latter is more reliably captured by Australian Bureau of Statistics (ABS) data, which seeks to reflect more comprehensively investment transactions between residents of Australia and non‑residents.

The statistics contained in this report do not measure total foreign investment made in any year, nor do they measure changes in net foreign ownership levels in Australia. Rather, they provide information on those investments that fall within the scope of the *Foreign Acquisitions and Takeovers Act 1975* (the FATA) and the Government’s foreign investment policy (the policy). The monetary value attributed to approved proposals is the amount advised by the applicants. It represents an estimate of the expected investment in that and subsequent years that would result if the proposal is in fact implemented. The statistics therefore provide partial coverage of all foreign investments made and include some transactions that did not actually proceed. Several points should be noted:

* The data does not cover foreign investments below the various monetary and percentage thresholds that apply under the FATA and the policy, including for new businesses and acquisitions by foreign governments. Nor does the data cover follow‑on investments to expand the capital stock of existing foreign‑owned businesses (both in existing areas and into related areas). See Appendix A for the current thresholds.
* The figures are based on the assumption that investment funds will be sourced from overseas. The extent to which approved investment proposals will actually be funded externally and therefore result in foreign capital inflows depends not only upon whether they are implemented, but also upon the proportion that is financed from foreign sources. Some (and in some cases all) of the proposed funds to be invested may be contributed by Australians, for example, where they are in partnership with foreign interests or where the investment is financed from existing Australian operations.
* The source of funds identified in the Board’s statistics does not necessarily imply the country of control. For example, if a company has a single substantial shareholder, the country of that shareholder is recorded, or if a company’s shares are widely held, the country of domicile/incorporation is recorded.
* The data does not necessarily reflect a change in foreign ownership as, in some cases, both the target and purchaser are defined as a foreign person under the FATA.
* Acquisitions of diversified company groups are classified into a single industry sector according to the major activity of the group, for example, in a diversified mining company with interests in various minerals. Acquisitions of real estate to be used for purposes incidental to the main business activity of the purchaser are classified according to that activity.[[1]](#footnote-2)

The Board’s statistics are also not a reliable indicator of trends in foreign investment inflows because:

* they include proposals that are approved in a given year but which are not actually implemented, or could be implemented in a later year, or over a number of years;
* they include approvals for multiple potential acquirers of the same target company or asset;
* they are inherently irregular and can be skewed due to very large investment proposals;
* major liberalisations of the policy that have occurred since the mid‑1980s have acted to reduce the number of proposals and thus limit comparability over time, such as:
	+ the increase in the general asset threshold in 1999 from $5 million to $50 million, and again in December 2006 from $50 million to $100 million;
	+ the increase in the offshore takeovers threshold in December 2006 from the general asset threshold (then at $50 million) to $200 million; and
	+ the introduction of thresholds for the calendar year 2005 of $800 million and $50 million (indexed annually) for United States (US) investors from 1 January 2005;
* changes to other government policies and legislation may have an effect on proposed foreign investment, such as:
	+ the removal of foreign ownership restrictions in the media sector in April 2007; and
	+ changes in immigration policies that control the number of temporary resident visa holders and which largely determines the level of foreign investment in developed residential real estate;
* the implementation of a new case management system (known as FIMS) in December 2005 has significantly improved data collection accuracy. FIMS allows a more detailed analysis of proposed foreign investment, as reflected in improvements to the statistics presented from the 2005‑06 Annual Report onwards. As part of a post‑implementation review of FIMS, a detailed data validation process was undertaken for the purpose of preparing the 2005‑06 Annual Report. While the data in that and subsequent reports is consequently more accurate, this process was not able to be applied to previous years’ data and hence caution is necessary in making inter‑year comparisons;
* reporting procedures for proposals involving financing arrangements were amended in 2005‑06. Although they continue to be included in the statistics (in the number of approvals), the proposed acquisition cost and development expenditure are not recorded in FIMS for proposals such as lending arrangements where there is not expected to be an equity investment flow into Australia.[[2]](#footnote-3) This has affected the value attributed to proposed investment in the finance and insurance industry; and
* prior to 2005‑06, proposals involving share acquisitions were recorded as conditionally approved on the basis that the proposed acquisition was to proceed within 12 months. In FIMS, such proposals are no longer recorded as conditionally approved.[[3]](#footnote-4) This has not significantly affected the proportion of approvals that are subject to conditions (79 per cent of total approvals under FIMS in 2007‑08 compared with 74 per cent under the previous system in 2004‑05). However, the value of proposed investment reported as being associated with the conditional approval category has significantly decreased due to the very large investment amounts involved with such proposals.

The term ‘proposed investment’ is used widely throughout this report. Proposed investment is the aggregation of the following estimated:

* acquisition costs (including shares, real estate or other assets);
* development costs following the acquisition; and
* costs of both establishment and development in the case of new businesses.

## Applications considered in 2007‑08

This section analyses **all** investment proposals that were finalised (approved, rejected, withdrawn or exempt) during 2007‑08, irrespective of the date they were submitted.[[4]](#footnote-5) Corporate reorganisations are included here (66 in 2007‑08), whereas they are excluded from the analysis of approved investment provided later in this chapter.[[5]](#footnote-6)

The number of applications considered during 2007‑08 was 8,548, which is 22 per cent higher than the 7,025 in 2006‑07. Table 2.1 provides a breakdown of the number of applications considered over the last six years, according to the outcome of proposals.

Of the 7,841, applications **approved** in 2007‑08 (a 27 per cent increase on the 6,157 approvals in 2006‑07), 6,185 were approved subject to conditions and 1,656 without conditions being imposed. All but five of the conditional approvals were in the real estate sector, where 84 per cent of all approvals were subject to the standard conditions imposed under the policy during the report period. Real estate conditions ordinarily imposed at that time include those relating to the period during which development must commence (usually 12 months), requiring temporary residents to reside in and then sell established dwellings when they cease to reside in them, and reporting requirements.

A total of 14 proposals were **rejected or not approved** in 2007‑08 (39 in 2006‑07), representing less than one per cent of all proposals considered. All of these rejected proposals related to real estate acquisitions. This figure includes one proposal that was subject to the FATA, and thus required the making of a Final Order. A Final Order prohibits the implementation of the proposed acquisition. Where the acquisition has already taken place, a Divestiture Order may be made. No Divestiture Orders were made during 2007‑08. However, two rejected proposals involved the applicants voluntarily divesting their interests in these properties without the need for Divestiture Orders to be issued. The remaining 11 rejections involved proposals that were not subject to the FATA, being applications for approval to sell up to 50 per cent of newly constructed dwellings in a multi‑unit development off‑the‑plan, so relieving the buyer from the requirement to seek separate individual approval. They did not receive approval because the development was to be of too few units to meet the administrative requirement set by the policy at that time for providing such an approval. Such approvals were only made available for developments involving construction of at least 10 dwellings, and those applications were for developments of less than 10.

In 2007‑08, 521 proposals were **withdrawn** by the applicants, representing a 17 per cent decrease on the 629 withdrawals in 2006‑07 having returned to its average over recent years of around 6 per cent of the total applications received. In 2007‑08, 86 per cent of withdrawals involved real estate proposals. Many of these withdrawals result from applicants submitting several concurrent or a series of applications (often for properties that are to be auctioned and for which they intend to bid), and once one property has been purchased, subsequently withdrawing the remaining applications. In other cases, proposals are withdrawn because the investment is deferred or the applicant decides not to proceed for commercial reasons. Foreign investors are encouraged to discuss all types of proposals with the Board’s secretariat to ensure they are consistent with the policy. Applicants may decide to withdraw and later resubmit complex proposals that require more than the standard 30‑day examination period set by the FATA in preference to the issuing of an Interim Order, publicly revealing its existence as such Orders are published in the Commonwealth of Australia *Gazette*.

During 2007‑08, 172 proposals were determined to be **exempt** compared with 200 in 2006‑07. Some applications received are determined to be outside the scope of the FATA, including because they are exempted by the *Foreign Acquisitions and Takeovers Regulations 1989* (the Regulations, see Appendices A and E) or outside the scope of the policy. The existence of these particular applications reflects the requirement under the policy that foreign investors submit proposals where any doubt exists as to whether they are notifiable.

Table 2.1: Applications considered 2002‑03 to 2007‑08 — number of proposals



Note: Includes corporate reorganisations (66 in 2007‑08).

## Applications decided in 2007‑08

This section analyses all proposals that were approved (either with or without conditions), or rejected during 2007‑08, irrespective of the date they were submitted. Corporate reorganisations are also included here, whereas they are excluded from the analysis of approved investment provided later in this chapter.

The number of applications decided during 2007‑08 was 7,855, around 27 per cent higher than in 2006‑07 and 50 per cent higher than in 2005‑06 (see Table 2.1). The value of decided applications was $192.0 billion, approximately 23 per cent higher than in 2006‑07 and more than double the 2005‑06 total. Table 2.2 provides a breakdown of proposed investment according to the outcome of decided applications, for the corresponding period provided in Table 2.1.

Table 2.2: Applications decided 2002‑03 to 2007‑08 — proposed investment



Note: Totals may not add due to rounding.

 ‘0.0’ indicates a figure of less than $50 million.

 Includes corporate reorganisations (66 in 2007‑08).

Charts 2.1 and 2.2 display the figures from Tables 2.1 and 2.2 to show the difference between applications decided within the real estate and non‑real estate sectors[[6]](#footnote-7) by number of proposals and value of proposed investment.

As can be seen in Chart 2.1, by number, most of the applications decided were within the real estate sector. Chart 2.2 shows that, by value, most of the proposed investment occurred in non‑real estate sectors.

Charts 2.1 and 2.2 also show that during 2007‑08, all of the increase in the number of applications decided was in the real estate sector. The number of applications decided in the non‑real estate sectors decreased slightly. Additionally, Chart 2.2 shows that the real estate sector also recorded the largest percentage increase in estimated proposed investment. Further discussion and breakdown of these increases in the real estate sector are provided from page 30.

Chart 2.1: Applications decided 2002‑03 to 2007‑08 —
number of proposals



Chart 2.2: Applications decided 2002‑03 to 2007‑08 —
proposed investment



## Approvals by value

The remainder of this chapter analyses applications approved during 2007‑08 (excluding corporate reorganisations). Table 2.3 displays the number of approvals sorted by the value of proposed investment for the last four years. There was an increase across all categories during 2007‑08. Overall, there were 28 per cent more approvals and a 23 per cent increase in proposed investment than in 2006‑07.

There was a 75 per cent increase in the number of proposals valued at $1 billion or more (35 compared to 20 the previous year), but only a 17 per cent increase in the amount of proposed investment. This indicates that, while there were more proposals, they involved smaller investment volumes and the majority of these were not much more than $1 billion in value.

The largest increases in both number of approvals and proposed investments were in the $2 billion to less than $5 billion category, with two and a half times the number of approvals and almost two and a half times the total amount of proposed investment. The next largest increases occurred in the $1 billion to less than $2 billion category, with 82 per cent more approvals and 55 per cent higher proposed investment. The number of proposals in the $5 billion or more category remained the same. However, proposed investment was 28 per cent less in 2007‑08.

In the less than $1 million category, there was a 28 per cent increase in the number of proposals and a 33 per cent increase in proposed investments. These increases mainly reflect the increase in real estate proposals during 2007‑08.

The smallest increase in number of approvals, with a 14 per cent increase, was in the $50 million to less than $100 million category. This is attributable to the increase in the number of approvals for ‘annual programmes’ of real estate acquisitions in 2007‑08. These annual programmes reduced the number of the larger, individual real estate proposals (which would usually make up the majority of proposals within this category).

Table 2.3: Total approvals by value 2004‑05 to 2007‑08



Note: Totals may not add due to rounding.

 Excludes corporate reorganisations (66 in 2007‑08).

Charts 2.3 and 2.4 depict total approvals by value using the data provided in Table 2.3. The increase in the number of approvals involving proposed investment of less than $1 million can be seen in Chart 2.3, correlating with the increase in real estate proposals shown in Chart 2.1. The increases in proposed investment in the higher categories can be seen in Chart 2.4.

Chart 2.3: Total approvals by value 2004‑05 to 2007‑08 —
number of proposals



Chart 2.4: Total approvals by value 2004‑05 to 2007‑08 —
proposed investment



## Approvals by sector

Table 2.4 lists applications approved during 2007‑08 by industry sector. Chart 2.5 depicts approved investment in each sector on a proportional basis by value. The majority of the proposed investment is attributable to the proposed acquisition cost. The skewing of the foreign investment data towards the acquisition costs reflects the fact that the FATA applies to acquisitions of interests in, and not to the expansion of, existing businesses. The real estate sector’s development figures predominantly reflect the estimated expenditure on construction on vacant land. The vast majority of the non‑real estate figures are attributed to the estimated investment involved in establishing new businesses. Under the policy, proposals to establish new businesses involving a total investment of $10 million or more are subject to notification and approval. Bearing in mind the limitations of the Board’s data, during 2007‑08:

* mineral exploration and development was the largest industry sector by value, with approvals totalling $64.3 billion ($32.3 billion in 2006‑07); and
* other significant sectors by value of proposed investment were, real estate with $45.5 billion ($21.4 billion in 2006‑07), services with $35.7 billion ($28.9 billion in 2006‑07), and manufacturing with $31.3 billion ($62.8 billion in 2005‑06 — the largest industry sector by value for that year).

Table 2.4: Total approvals by industry sector in 2007‑08



Proposed investment in the real estate sector may be overstated as it includes off‑the‑plan approvals provided to real estate developers and approvals for annual programmes. Further details provided in section on real estate from page 30.

Note: Totals may not add due to rounding.

 ‘‑‘ indicates a figure of zero.

 Excludes corporate reorganisations (66 in 2007‑08).

Chart 2.5: Total approvals by industry sector in 2007‑08 —
proposed investment value



Note: Totals may not add due to rounding.

 ‘0%’ indicates a figure of less than 0.5%.

### Agriculture, forestry and fishing

Proposed investment in the agriculture, forestry and fishing sector increased significantly in 2007‑08. Eleven proposals were approved with a total value of $2.5 billion, compared with only four approvals in 2006‑07 with a total value of $104.0 million. Of these approvals, six involved total investment in excess of $100 million, including one involving estimated investment in excess of $1 billion.

### Finance and insurance

During 2007‑08, 39 proposals were approved in the finance and insurance sector with proposed investment of $9.2 billion, compared with 38 proposals and $5.6 billion in 2006‑07. There were 13 proposals approved which involved investment of $100 million or more (16 in 2006‑07), with two involving proposed investment of $1 billion or more, accounting for $5.8 billion (63 per cent) of the overall total.

As discussed at the beginning of this chapter, the proposed acquisition costs and development expenditure are not recorded in FIMS for proposals such as financing arrangements where there is not expected to be an investment flow into Australia.

### Manufacturing

The manufacturing sector, which was the leading industry sector by value in the previous year, saw a significant decrease in both number of proposals approved and proposed investment in 2007‑08. There were 48 proposals (41 per cent less than the 82 proposals in 2006‑07) and proposed investment of $31.3 billion (50 per cent less than the $62.8 billion in 2006‑07). Thirty‑one involved total investment of $100 million or more in 2007‑08. Four involved total investment of $1 billion or more, compared with seven proposals (including one of nearly $17 billion) with an estimated investment value in excess of $1 billion during the previous year. Proposed investment in manufacturing was primarily in electricity and gas, accounting for 41 per cent ($12.7 billion) of the proposed investment in this sector.

Table 2.5: Manufacturing sector approvals in 2007‑08



1. Comprises: non‑metallic mineral products; miscellaneous manufacturing; and textiles.

Note: Totals may not add due to rounding.

 ‘‑‘ indicates a figure of zero.

### Mineral exploration and development

Proposed investment in the mineral exploration and development sector increased by 99 per cent, from $32.3 billion in 2006‑07 to $64.3 billion in 2007‑08, making it the largest industry sector by value. A total of 173 proposals were approved (compared with 141 in 2006‑07), comprising five to establish new businesses and 168 to acquire an interest in existing businesses. There were 83 proposals involving total investment of $100 million or more, including 12 for $1 billion or more (compared with six for $1 billion or more in 2006‑07). These 12 proposals, one of which was valued at $10.5 billion, accounted for a combined proposed investment in excess of $34 billion (53 per cent of the proposed investment in this sector).

Table 2.6: Mineral exploration and development sector approvals 2006‑07 to 2007‑08



1. From 2005‑06 onwards, copper and gold are reported jointly since they are often mined together.
2. Comprises: services to mining and exploration; and non‑metallic minerals.

Note: Totals may not add due to rounding.

 ‘‑‘ indicates a figure of zero.

### Resource processing

There was a decrease in proposed foreign investment in the resource processing sector, with three approvals in 2007‑08, compared to eight in 2006‑07 (and none in the previous two years). Total proposed investment was $221 million ($3.7 billion in 2006‑07), including one proposal involving investment of approximately $137 million (or 62 per cent of proposed investment in this sector).

### Services

During 2007‑08, proposed investment in the services industry sector increased by 24 per cent, from $28.9 billion in 2006‑07 to $35.7 billion in 2007‑08. However, the number of proposals decreased slightly, with 109 proposals (116 in 2006‑07). Proposals in the construction industry accounted for around 35 per cent ($12.5 billion) of total approved investment. There were 62 proposals involving proposed investment of $100 million or more, including eight of $1 billion or more. Of these eight proposals, two in the construction industry accounted for a total of $9.9 billion (or 28 per cent of total proposed investment in the sector).

Table 2.7: Services sector approvals in 2007‑08



1. Comprises: education, museum and library services; entertainment and recreational services; and personal services.

Note: Totals may not add due to rounding.

 ‘‑‘ indicates a figure of zero and ‘0.00’ indicates a figure of less than $5 million.

### Tourism

Total approved foreign investment in the tourism sector more than doubled in 2007‑08, with $3.2 billion ($1.5 billion in 2006‑07), while the number of proposals decreased by 44 per cent, from 68 to 38. Three proposals involved proposed investment of $100 million or more (four in 2006‑07). Of these, one involved proposed investment in excess of $1.8 billion. This is in contrast to the previous year, where there were no proposals involving investment of more than $1 billion.

### Real estate

#### Changes to foreign investment policy — residential real estate

On 18 December 2008, the Assistant Treasurer released details of administrative changes to the Government’s foreign investment screening arrangements for acquisitions of residential real estate by foreign persons. These changes generally maintain the restrictions imposed under the policy in place in 2007‑08 but provide for streamlined notification and administrative arrangements. The changes were implemented progressively — those that only required changes to the policy came into effect immediately, while those requiring changes to the Regulations came into effect on 31 March 2009. There were no changes to the FATA.

Prior to this announcement, foreign investment screening arrangements for residential real estate had not been updated since 1989 and thus no longer gave appropriate effect to the intent of the Government’s foreign investment policy. The changes are designed to streamline and update foreign investment screening for residential real estate acquisitions, enhancing flexibility in the market and reducing compliance costs for temporary residents and the construction industry. The changes are now fully implemented. The Government will monitor the changes to ensure these continue to be in the national interest. Further information relating to these changes can be found on the Foreign Investment Review Board website at [www.firb.gov.au](http://www.firb.gov.au/). The policy and related documents have been updated to reflect the changes.

#### Real estate under the 2007‑08 policy

The remainder of this section discusses the policy as it was prior to the amendments. The policy in place in 2007‑08 required all proposed acquisitions of Australian urban land[[7]](#footnote-8) to be notified for examination, unless subject to an exemption under the Regulations.

The number of approvals in the real estate sector increased significantly from 5,612 in 2006‑07 to 7,354 in 2007‑08, or by 31 per cent, and followed an 18 per cent increase in the previous year. Of the additional 1,657 approvals, the majority were for existing residential dwellings which increased by 1,029 from 2,986 in 2006‑07 to 4,015 in 2007‑08. There were an additional 289 approvals involving acquisitions of vacant land, with a total of 1,667 approvals in this category (1,378 in 2006‑07). The number of commercial real estate approvals increased from 98 to 183 in 2007‑08.

Proposed investment more than doubled, increasing by $24.1 billion from $21.4 billion in 2006‑07 to $45.5 billion in 2007‑08. Most of the increase was in commercial property acquisitions which increased by $17.2 billion from $7.9 billion to $25.1 billion. Residential property approvals increased by $6.9 billion from $13.5 billion to $20.4 billion.

Of the increase in residential real estate approvals, $1.1 billion was for existing dwellings which increased from $2.3 billion in 2006‑07 to $3.4 billion in 2007‑08. Of the remaining $5.8 billion increase, $3.9 billion was for newly constructed dwellings, comprising increased individual approvals of $0.2 billion and developers’ approvals of $3.7 billion. The former are single dwelling sales to foreigners while the latter represent approvals provided to developers to sell up to 50 per cent of the dwellings in a multi‑unit development. The value attributed to this category substantially overstates actual acquisition expenditure because it represents the value of all dwellings constructed in the development, not the generally small proportion (generally less than 10 per cent) later bought by foreign persons.

Of the increase in acquisitions of commercial real estate, $14.5 billion was for existing property (an increase of $10.4 billion) and vacant land (an increase of $4.1 billion). The former included several large acquisitions of beneficial interests in managed investment funds with real estate property as assets. The remaining $2.6 billion of the increase was approvals for annual programme acquisitions which increased from $2.0 billion to $4.6 billion.

Table 2.8 on page 37 gives a breakdown of approved real estate investment for 2007‑08.

#### Residential real estate

##### Developed

During 2007‑08, 4,028 proposals were approved for the acquisition of **developed** **residential** real estate, a 35 per cent increase from the 2,991 that were approved in 2006‑07. This category consists primarily of temporary residents in Australia acquiring an established dwelling as their principal place of residence.[[8]](#footnote-9) Proposed investment approved totalled $3.4 billion, an increase of 46 per cent on the $2.3 billion in 2006‑07. Developed residential property accounts for 87 per cent of the total with $3.0 billion, with the remainder being approvals for acquisitions under an ‘annual programme’.

There were two rejections of proposed acquisitions of developed residential property by foreign persons (24 in 2006‑07). One involved the issue of a Final Order prohibiting the acquisition, while for the other the applicant had already acquired the property in breach of the FATA prior notification requirements. As the acquisition did not comply with the requirements of the policy, the applicant sold the property and a Divestiture Order was not made.

Rejections would arise where the acquisition was inconsistent with the policy, for example, where the prospective foreign purchaser:

* did not hold a temporary resident visa permitting continuous residence in Australia which during 2007‑08 was required to be for a period of at least 12 months;
* did not intend to use the property as their principal place of residence; and/or
* held a student visa and the value of the property they proposed to purchase exceeds the $300,000 general limit applicable in 2007‑08 to student visa holders.

##### For development

In 2007‑08, 3,156 proposals were approved for acquisitions of **residential real estate for development** (including eligible redevelopment), a 25 per cent increase on the 2,523 in 2006‑07.[[9]](#footnote-10) Proposed investment increased by 52 per cent to $17.0 billion ($11.2 billion in 2006‑07). Proposed development expenditure increased from $2.0 billion in 2006‑07 to $3.7 billion in 2007‑08.

The *vacant land* category consists primarily of individual blocks of land purchased for single dwelling construction. It also includes broadacre land for residential subdivision and multiple‑dwelling residential developments (such as townhouses and units). In 2007‑08, 1,667 vacant land proposals were approved (a 21 per cent increase on the 1,378 in 2006‑07), with proposed investment of $3.9 billion ($2.9 billion in 2006‑07). Approvals during 2007‑08 were subject to a condition that continuous development commenced within 12 months, involving expenditure of at least 50 per cent of the acquisition cost of the land. The applicant is required to report on the completion of development to demonstrate compliance with the development conditions.

The *new dwellings*[[10]](#footnote-11) category consists of applications by individuals to acquire newly constructed dwellings directly from developers and applications by developers to sell up to 50 per cent of new residences to foreign interests. If a developer is given approval, individuals need not apply for approval. The developer must report on sales to ensure the 50 per cent limit is not exceeded.

In 2007‑08, 1,043 proposals from individuals were approved, involving acquisition costs of $661.9 million (compared with 838 and $476.2 million in 2006‑07). There were 324 advance off‑the‑plan approvals to developers covering sales in new multi‑unit residential developments (compared with 238 in 2006‑07). This involved an increased approval value of 64 per cent, up from $5.8 billion in 2006‑07 to $9.5 billion in 2007‑08.

Certain points should be noted in relation to the figures for advance off‑the‑plan approvals. Firstly, the Board’s figures overstate the likely level and hence value of actual foreign purchases. In practice, developers with advance off‑the‑plan approvals sell substantially less than the approved 50 per cent of new dwellings, and in most cases, the proportion sold is under 10 per cent. Secondly, the figures reflect the value of the dwellings in the year of approval (approvals usually occur in the construction phase rather than during the sale of the dwellings). Further, the approved value is attributed entirely to acquisition cost and not to proposed development expenditure, reflecting the fact that approvals relate to ultimate purchases of completed dwellings by foreign persons (and not to the developer for the development of the dwellings).

Developed property for *redevelopment* involves the acquisition of existing property for the purpose of demolition and construction of new residential dwellings. The number of redevelopment proposals increased by 75 per cent with 103 approvals in 2007‑08 (compared with 59 the previous year). The proposed investment associated with these approvals was $1.6 billion, more than four times the $365.1 million for 2006‑07. Applications for redevelopment primarily involve construction of multiple‑dwelling residential developments (such as dual occupancy, townhouses and units), since the policy requires redevelopment approvals to result in an increase in the housing stock, except where the existing dwelling is at the end of its economic life (meaning it is derelict and uninhabitable). Consequently, the development value will vary from year to year depending on the scale of the individual developments approved in each year.

In the land for development category, 12 applications seeking approval in 2007‑08 were rejected, compared with 14 in 2006‑07. The majority of these comprised applications for advance off‑the‑plan approvals for developments with less than the 10 dwellings required by the policy for an approval. Apart from this, rejections are generally for one or more of the following reasons:

* The planned development expenditure is not sufficient in relation to the acquisition cost of the property (the policy in place during 2007‑08 required development expenditure of at least 50 per cent of the acquisition cost).
* The proposed development timetable is unsatisfactory given the then applicable requirement that it commence within 12 months.
* The property to be acquired for redevelopment purposes would not result in an increase in the housing stock (that is, the existing dwelling is not uninhabitable or at the end of its economic life, and the prospective foreign purchaser does not intend to construct multiple dwellings).
* The prospective foreign purchaser has not established that they have the capacity, for example, the technical and financial means or the necessary planning approvals, to undertake the proposed development within the timeframe set in the policy.
* The vendor of a new dwelling has not concurrently constructed a similar dwelling as was required under the policy during 2007‑08.
* The applicant has breached conditions imposed on a previous approval.

#### Commercial real estate

##### Developed

In 2007‑08, there were 90 approvals to purchase **developed commercial** real estate (for example, shopping centres, office buildings and warehouses), an 80 per cent increase from the 50 in 2006‑07. The associated proposed investment was $16.5 billion, more than three and a half times the $4.6 billion in 2006‑07. Of this, 70 per cent was attributed to the acquisition of beneficial interests in managed investment funds holding land assets that exceeded 50 per cent of its total assets, rather than direct acquisitions of legal title to the land. Two proposals involving proposed investment of more than $1 billion accounted for $5.7 billion, 35 per cent of the total. This data reports only part of the total foreign investment that would have occurred in commercial real estate as the Regulations exempt from the Act some acquisitions, including of non‑vacant, non‑heritage listed commercial property valued below $50 million.

##### For development

During 2007‑08, there were 93 approvals to purchase **commercial land for development**, compared with 48 in 2006‑07. These approvals involved proposed investment of $8.6 billion, including $5.8 billion in development expenditure. This represented a substantial increase on the $3.3 billion total reported for 2006‑07.

There were no rejections of proposed acquisitions of developed commercial property or commercial real estate for development by foreign persons (one in 2006‑07).

#### Annual programmes

The ‘**annual programme’** arrangements allow foreign persons to apply for an annual approval for real estate acquisitions up to a specified monetary limit. Such an approval relieves them of the requirement to seek separate approval for individual real estate acquisitions within the approved value and the approval year. Approvals are subject to the condition that applicants subsequently report on the actual acquisitions completed and any associated development.

In 2007‑08, a total of 31 annual programmes were approved with proposed investment of $6.4 billion, compared with 28 approvals and proposed investment of $3.7 billion in 2006‑07. The majority of the $2.6 billion increase on the 2006‑07 approvals was for acquisitions of commercial property: an increase of $1.5 billion for developed commercial property and $1.1 billion for commercial land for development. One approval covered proposed land acquisitions of up to $1.2 billion during the approval year.

During 2007‑08, 13 annual programme approvals involved acquisitions of developed residential real estate with proposed investment of $0.4 billion (five approvals and $0.1 billion in 2006‑07). Such approvals generally involve foreign mining companies acquiring housing for employees in rural areas. Six approvals were made for the purchase of vacant residential real estate for development (10 in 2006‑07) involving proposed total investment of $1.3 billion, 17 per cent below the $1.6 billion in 2006‑07.

The development expenditure associated with annual programmes in the ‘for development’ categories did not always reflect the policy requirement applying during 2007‑08 that at least 50 per cent of the acquisition cost is spent on development. This is because a number of approvals were for acquisitions of property which were not intended for development for various reasons, such as the land was to be acquired for use as:

* a ‘buffer zone’, for example, surrounding an existing mine or quarry; or
* a tree plantation, including as part of a ‘carbon sinks’ programme.

As with advance off‑the‑plan approvals for developers, the Board’s figures for annual programme approvals overstate the likely extent of actual foreign purchases. The value of investment reported against annual programme approvals represents the maximum amount the foreign person may acquire under the programme.

Table 2.8: Real estate sector approvals in 2007‑08



1. Developed property for redevelopment is included as residential real estate for development.
2. The ‘new dwelling’ category was previously referred to as ‘off‑the‑plan’.

Note: Totals may not add due to rounding.

 ‘‑‘ indicates a figure of zero and ‘0.00’ indicates a figure of less than $5 million.

#### Real estate by location of investment

Table 2.9 provides details of proposed investment in the real estate sector, according to the state and territory location of the investment. During the 2007‑08 year, Victoria was the main location of proposed real estate investment with 21 per cent of the total amount approved (compared with 11 per cent in 2006‑07), followed by Queensland and New South Wales which accounted for approximately 18 per cent and 16 per cent respectively (compared with 21 per cent and 24 per cent in 2006‑07).

Victoria accounted for the largest number of approvals with 2,238 in 2007‑08 (up from 1,253 in 2006‑07) and the largest increase of 79 per cent on 2006‑07. Queensland had the second largest number with 1,726 (1,435 in 2006‑07), followed by New South Wales with 1,223 (908 in 2006‑07) and Western Australia with 1,043 (1,134 in 2006‑07).

As in 2006‑07, there was an increase in the value of approvals for land acquisitions in more than one state or territory. In 2007‑08, these accounted for 35 per cent of total proposed investment, up from 27 per cent in 2006‑07. This in part reflected an increase in annual programme approvals, which generally cover acquisitions in multiple states. In the absence of approval under an annual programme, such acquisitions would previously have been recorded individually against the relevant state. The ’various states’ category recorded the bulk of proposed investment in commercial real estate, with approvals encompassing multiple states or territories accounting for 46 per cent of total approved investment in commercial real estate. This in large part reflected approvals for acquisitions of beneficial interests in managed investment funds with real estate assets in a number of states and territories.

During 2007‑08, less than 1 per cent of approvals in the real estate sector involved the acquisition of real estate located offshore[[11]](#footnote-12) (also less than 1 per cent of approvals in 2006‑07). This sector reflects proposed foreign investment in Australian listed property trusts or funds, whose principal activities are to invest in foreign real estate.

Table 2.9: Real estate sector approvals in 2007‑08 — location of investment



1. Comprises approved proposals where the investment is to be undertaken in more than one state or territory.

Note: Totals may not add due to rounding.

 ‘‑‘ indicates a figure of zero and ‘0.00’ indicates a figure of less than $5 million.

## Approvals by country of investor

Data on proposed investment associated with approvals in 2007‑08 is shown by selected country, aggregated by location of investment in Table 2.10 and by industry sector in Table 2.11. The US was once again the largest source of proposed foreign investment in Australia. The other major sources of foreign investment were the United Kingdom (UK), Germany, Singapore and Switzerland. Chapter 4 provides information on foreign investment stocks and flows by country.

Approved proposed investment from the US saw a 9 per cent increase from $45.3 billion in 2006‑07 to $49.5 billion in 2007‑08. Proposed investment was primarily in the services sector, accounting for 30 per cent of total US investment and making the US the leading country of nationality of foreign investors in this sector, accounting for 41 per cent. A single proposal in excess of $6 billion accounted for 42 per cent of US investment in the services sector. The US was also the leading nationality for foreign investment in the tourism and real estate sectors, accounting for 80 per cent and 26 per cent respectively. A single proposal accounted for 71 per cent of US investment in the tourism sector, while two proposals accounted for 45 per cent of US investment in the real estate sector. Refer to Chapter 4 for further discussion on the Australia/US investment relationship.

The UK recorded the second largest amount of proposed investment in 2007‑08, with $33.3 billion (almost two and a half times the $13.8 billion in 2006‑07). Of this proposed investment, $14.1 billion or 42 per cent was in the mineral exploration and development sector, making the UK the leading source of foreign investment in this sector. In excess of $10 billion of this was attributable to a single proposal. The UK was also the leading source of foreign investment in the finance and insurance sector, accounting for 71 per cent of total proposed investment in this sector and 21 per cent of the UK’s total proposed investment. Two proposals accounted for 88 per cent of the UK’s investment in the finance and insurance sector.

In 2007‑08, Germany’s total proposed investment increased by 86 per cent to $12.8 billion ($6.9 in 2006‑07). This proposed investment was primarily in the manufacturing sector, accounting for 46 per cent of total German investment, followed by investment in the services sector which accounted for 32 per cent of total German investment. A single proposal, in excess of $5 billion, accounted for 88 per cent of German investment in the manufacturing sector, and a single proposal accounted for 90 per cent of German investment in the services sector.

Singapore, which recorded the second largest amount of proposed investment in 2006‑07, saw a 39 per cent decrease in 2007‑08 with total proposed investment of $10.9 billion ($18.0 billion in 2006‑07). This proposed investment was primarily in the manufacturing sector, accounting for 76 per cent of total Singaporean investment and making Singapore the leading source of foreign investment in this sector. A single proposal accounted for 76 per cent of Singaporean investment in the services sector.

Switzerland recorded the fifth largest amount of proposed investment in 2007‑08, with $10.6 billion, more than two and a half times larger than the $4.1 billion in 2006‑07. The majority of its investment was in the mineral exploration and development sector, accounting for 84 per cent of total proposed investment from Switzerland. Two proposals accounted for 66 per cent of proposed investment in this sector.

Table 2.10: Approvals by country of investor in 2007‑08 — location of investment



Note: Totals may not add due to rounding.

 ‘‑‘ indicates a figure of zero and ‘0’ indicates a figure of less than $0.5 million.

See Notes on page 41.

Table 2.11: Approvals by country of investor in 2007‑08 — industry sector

Note: Totals may not add due to rounding.

 ‘‑‘ indicates a figure of zero.

See Notes on page 41.

Notes applying to Tables 2.10 and 2.11:

1. Includes overseas Territories.
2. China excludes Special Administrative Regions and Taiwan.
3. Off‑the‑plan approvals to real estate developers have been recorded as not allocated to a country because the country of buyers of the dwellings is not known in advance.
4. Comprises all other countries excluding Australia.
5. The investment identified as originating from Australia is the contribution by Australian‑controlled companies and Australian residents to the total investment for investment proposals made in partnership with foreign interests. It does not generally include the contribution attributable to Australian shareholders in companies where the majority or controlling shareholders are foreign.
6. Comprises proposals where the investment is to be undertaken in more than one state or territory.
7. These figures indicate the total number of proposals in which investors from the particular country have an interest. Those involving investment originating from more than one country count as one proposal for each of the countries concerned. Therefore, the number reported is greater than the number reported in Table 2.1.
1. Data has been compiled by reference to the *Australian and New Zealand Standard Industrial Classification* (ANZSIC 1993), except: newspaper printing and publishing are allocated to the services industry sector (ANZSIC 1993 classifies these under manufacturing); and tourism is recorded as a separate industry sector rather than being included with the other service industries. [↑](#footnote-ref-2)
2. This is similar to the existing practice for corporate reorganisations. [↑](#footnote-ref-3)
3. Applicants are required to re-apply if the transaction has not taken place and they wish to proceed after 12 months has passed. [↑](#footnote-ref-4)
4. Since proposals determined exempt were not included prior to 2005‑06, the figures shown for prior years have been amended from those previously published to include these proposals. [↑](#footnote-ref-5)
5. The proposed acquisition costs and development expenditure are not recorded for corporate reorganisations. [↑](#footnote-ref-6)
6. Analysis of approvals by industry sector is provided from page 26. [↑](#footnote-ref-7)
7. Australian urban land is defined under the FATA to be all Australian land that is not used wholly and exclusively for carrying on a substantial business of primary production. [↑](#footnote-ref-8)
8. Includes a small number of approvals relating to foreign companies acquiring existing residential property for company employees to reside in. [↑](#footnote-ref-9)
9. The acquisition of house and land packages, where construction has not commenced, are treated as vacant land for development rather than falling within the off‑the‑plan category. [↑](#footnote-ref-10)
10. The new dwelling category was previously referred to as ‘off-the-plan’. [↑](#footnote-ref-11)
11. Not to be confused with offshore takeover (see section on foreign‑to‑foreign transactions in Chapter 3). [↑](#footnote-ref-12)