Chapter 2

Foreign investment proposals

Foreign investment proposals

This chapter provides an overview and statistical information on applications considered in 2005-06.

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 and 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 those from the Australian Bureau of Statistics (ABS), which seek to measure a wider range of investment transactions between residents of Australia and non-residents.

The statistics contained in this report are not a comprehensive measure of total foreign investment in any year, nor do they purport to measure changes in levels of foreign ownership of particular industries. The data is restricted to those investments that fall within the scope of the *Foreign Acquisitions and Takeovers Act 1975* (the FATA or the Act) and the Government's foreign investment policy (the policy). In particular, the data relates to proposals that receive foreign investment approval during the year. The monetary value attributed to these approved proposals is the amount advised by the applicants. It represents an estimate of the expected total investment in that and subsequent years that would result in the event that the proposal is in fact implemented. In addition:

- The data does not cover foreign investments below the thresholds that apply under the Act and the thresholds set by the policy, including for new businesses and acquisitions by foreign governments. Nor does the data cover expansions 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 result in foreign capital inflows depends not only upon whether the proposals 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 the investment is financed from existing Australian operations.

- The data does not reflect all changes in foreign ownership as, in some cases, both the vendor and purchaser are defined as a foreign person under the Act.

- Acquisitions of diversified company groups are classified into a single industry sub-code according to the major activity of the group. 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]

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

- they include proposals that are approved in any given year but which may not actually be implemented, or could be implemented in a later year, or over a number of years;

- they include approvals for multiple potential acquirers for the same target company or asset;

- they are inherently irregular and can be skewed due to very large investment proposals; and

- major liberalisations of the policy that have occurred since the mid-1980s limit comparability over time.

  – For example, the increase in the general asset threshold from $5 million to $50 million in 1999 has acted to reduce the number of proposals.

  – The introduction of thresholds of $800 million and $50 million (indexed annually) for United States (US) investors from 1 January 2005 only affected the data involving US proposed investment for half of the 2004-05 Annual Report period, whereas the thresholds have applied throughout the 2005-06 period.

Several improvements were initiated in 2005-06 which affect the statistics included in this report.

- 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 in this report. 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

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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.

in this report is consequently more accurate, this process was not able to be applied to previous years' data and hence some caution is necessary in making inter-year comparisons.

- Reporting procedures for proposals involving financing arrangements have been amended. 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 investment flow into Australia.[2] This has affected the value attributed to proposed investment in the finance and insurance industry.

- Previously, 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] This has not significantly affected the proportion of approvals that are subject to conditions (73 per cent of total approvals in 2005-06 compared with 74 per cent 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 proposed:

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

2 This is similar to the existing practice for corporate reorganisations.

3 Applicants are required to re-apply if the transaction has not taken place and they wish to proceed after 12 months has passed.

Applications considered in 2005-06

Applications considered comprises **all** proposals finalised during 2005-06 (approved, rejected, withdrawn or exempt), irrespective of the date proposals were submitted.[4] Corporate reorganisations are included here (85 in 2005-06), whereas they are excluded from the analysis of approved investment provided later in this chapter.[5]

The number of applications considered during 2005-06 was 5,781, around 18 per cent higher than the 4,884 processed in 2004-05. 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 5,186 applications **approved** in 2005-06, 3,800 were approved subject to conditions and 1,386 without conditions being imposed. All but 10 of the conditional approvals were in the real estate sector, where 82 per cent of all approvals were subject to conditions. Real estate conditions 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 the imposition of reporting requirements. Only 2 per cent of all non-real estate approvals were subject to conditions.

A total of 37 proposals were **rejected** in 2005-06, representing less than 1 per cent of all proposals considered. All rejected proposals involved the acquisition of residential real estate. Thirty of these were the subject of either a Final Order or a Divestiture Order made under the Act, with the balance involving formal rejection under policy.

In 2005-06, 373 proposals were **withdrawn** by the applicants. Foreign investors are encouraged to discuss proposals with the Board’s secretariat to ensure they are consistent with the policy. In some cases, the parties decide to withdraw proposals that would be inconsistent with the policy instead of proceeding to a formal rejection. In other cases, proposals are withdrawn because they ultimately did not proceed for commercial or other reasons.

During 2005-06, 185 proposals were determined to be **exempt**. Under the policy, foreign investors are required to submit proposals where any doubt exists as to whether they are notifiable. In some cases, the Board’s secretariat determines proposals to be exempt under the Act or the policy. In other cases, proposals are determined exempt as they are not subject to the Act.

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4 Since proposals determined exempt were not previously included, the figures shown for prior years have been amended from those previously published to include these proposals.

5 The proposed acquisition cost and development expenditure is not recorded for corporate reorganisations.

Table 2.1: Applications considered 2000-01 to 2005-06 – number of proposals

Outcome	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	No.	No.	No.	No.	No.	No.
Approved unconditionally	1,003	1,041	1,105	995	1,127	1,386
Approved with conditions	2,298	3,405	3,562	3,452	3,233	3,800
Total approved	**3,301**	**4,446**	**4,667**	**4,447**	**4,360**	**5,186**
Rejected	46	77	80	64	55	37
Total decided	**3,347**	**4,523**	**4,747**	**4,511**	**4,415**	**5,223**
Withdrawn	318	402	365	319	287	373
Exempt	193	172	203	206	182	185
Total considered	**3,858**	**5,097**	**5,315**	**5,036**	**4,884**	**5,781**

Note: Includes corporate reorganisations (85 in 2005-06).

Applications decided in 2005-06

Applications decided comprises all proposals approved (conditionally or unconditionally) or rejected during 2005-06, irrespective of the date proposals 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 2005-06 was 5,223, around 18 per cent higher than in 2004-05 (see Table 2.1). The value of proposed investment associated with decided applications was $85.8 billion, approximately 28 per cent lower than in 2004-05. 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 2000-01 to 2005-06 – proposed investment

Outcome	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
	$b	$b	$b	$b	$b	$b
Approved unconditionally	80.0	70.2	53.5	58.9	60.4	72.5
Approved with conditions	26.3	47.7	32.2	40.1	59.1	13.3
Total approved	**106.3**	**117.9**	**85.7**	**99.0**	**119.5**	**85.8**
Rejected	9.7	0.1	0.0	0.1	0.0	0.0
Total decided	**116.0**	**118.0**	**85.8**	**99.1**	**119.5**	**85.8**

Note: Totals may not add due to rounding.
'0.0' indicates a figure of less than $50 million.
Includes corporate reorganisations (85 in 2005-06).

Charts 2.1 and 2.2 show the difference between applications decided within the real estate and non-real estate sectors,[6] by number of proposals and value of proposed investment.

As can be seen in Chart 2.1, most of the applications decided were within the real estate sector, correlating with the large number of proposals conditionally approved shown in Table 2.1. Chart 2.2 shows that most of the proposed investment occurred in non-real estate sectors, correlating with the large value of proposed investment approved unconditionally shown in Table 2.2.

Charts 2.1 and 2.2 also show that during 2005-06, the majority of the increase in the number of applications decided was within the real estate sector, whereas the majority of the decrease in proposed investment occurred in the non-real estate sectors.

6 Analysis of approvals by industry sector is provided from page 24.

Chart 2.1: Applications decided 2000-01 to 2005-06 — number of proposals

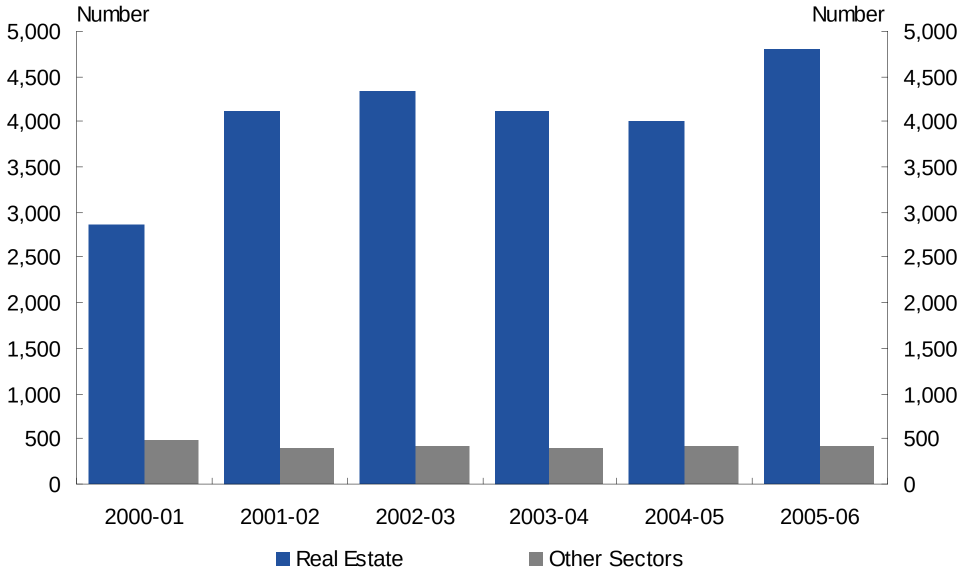
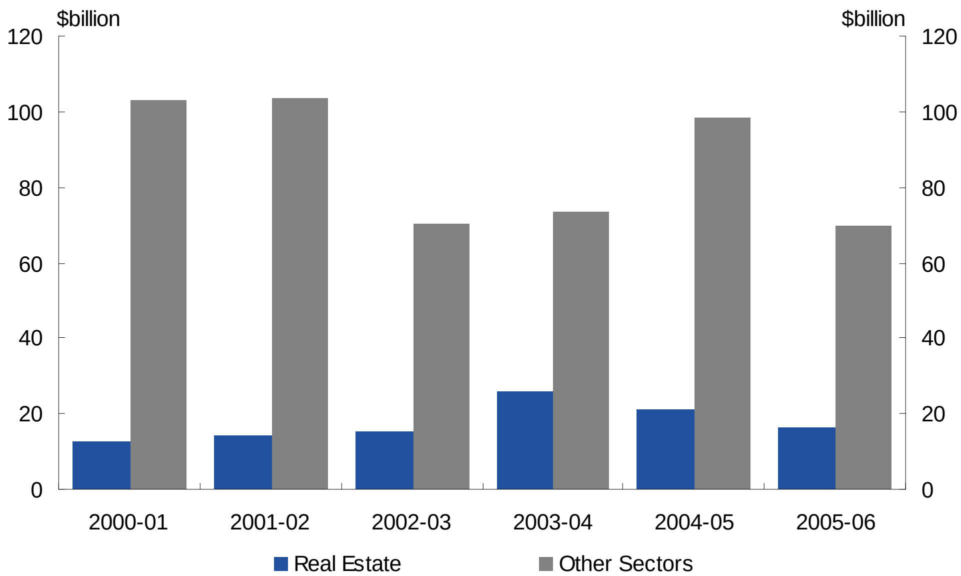


Chart 2.2: Applications decided 2000-01 to 2005-06 — proposed investment



Approvals by value

The remainder of this Chapter analyses applications approved during 2005-06 (excluding corporate reorganisations). Table 2.3 provides approvals for the last four years, by the value of the proposal. Generally, there was an increase in smaller approvals and a decrease in larger approvals during 2005-06. There was a significant increase in approvals involving proposed investment of less than $1 million, with 21 per cent more proposals and 29 per cent higher proposed investment than 2004-05. There was a significant decrease in approvals involving proposed investment of $1 billion or more during 2005-06, with 39 per cent fewer proposals and 58 per cent lower proposed investment than 2004-05.

Table 2.3: Total approvals by value 2002-03 to 2005-06

Value of proposal	2002-03		2003-04		2004-05		2005-06	
	No.	$b	No.	$b	No.	$b	No.	$b
< $1 million	3,532	1.4	3,335	1.4	3,269	1.4	3,955	1.8
≥ $1 million & < $50 million	800	7.7	784	7.1	776	7.9	892	7.4
≥ $50 million & < $100 million	73	5.0	87	6.0	92	6.3	105	7.3
≥ $100 million & < $500 million	112	22.5	113	23.2	97	21.2	112	25.5
≥ $500 million & < $1 billion	17	11.6	25	15.2	26	17.8	23	16.4
≥ $1 billion	13	37.6	19	46.1	23	64.9	14	27.2
Total	**4,547**	**85.7**	**4,363**	**99.0**	**4,283**	**119.5**	**5,101**	**85.8**

Note: Totals may not add due to rounding.
Excludes corporate reorganisations (85 in 2005-06).

Charts 2.3 and 2.4 depict total approvals by value using the data provided in Table 2.3. The large 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 large decrease in proposed investment of $1 billion or more can be seen in Chart 2.4, correlating with the fall in proposed investment in non-real estate proposals shown in Chart 2.2.

Chart 2.3: Total approvals by value 2002-03 to 2005-06 – number of proposals

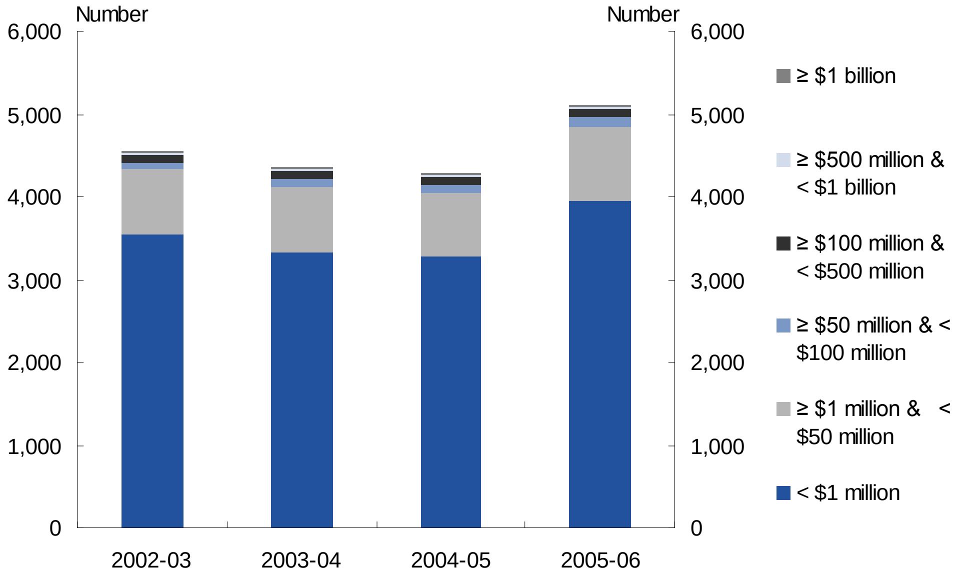
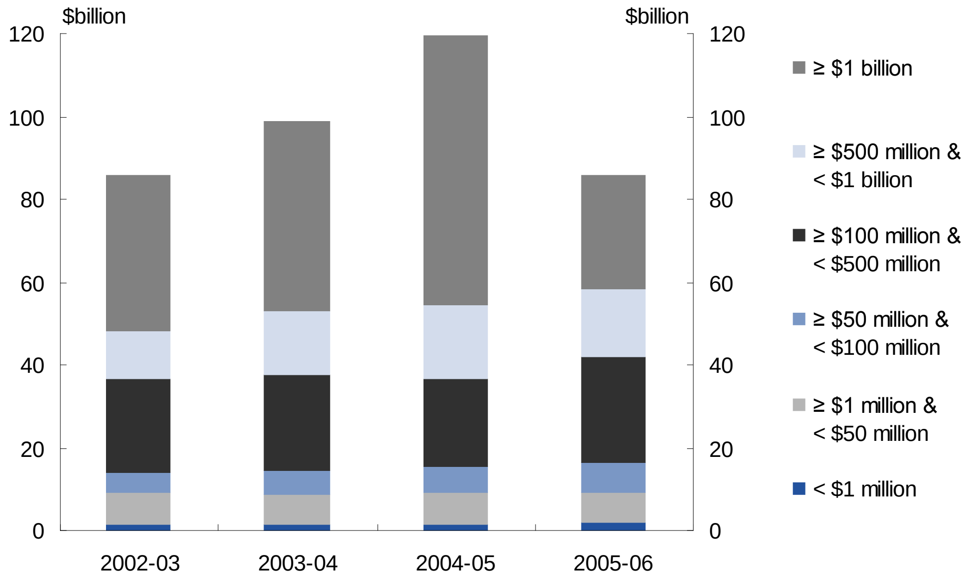


Chart 2.4: Total approvals by value 2002-03 to 2005-06 – proposed investment



Approvals by sector

Table 2.4 provides applications approved during 2005-06 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 notification requirements — the expansion of existing businesses generally does not require foreign investment approval. Bearing in mind the limitations of the Board's data, during 2005-06:

- the services sector was the largest industry sector by value, with approvals totalling $27.1 billion ($30.5 billion in 2004-05); and
- other significant sectors by value of proposed investment were mineral exploration and development $19.7 billion ($33.5 billion in 2004-05), real estate $16.2 billion ($20.9 billion in 2004-05) and manufacturing $13.7 billion ($22.1 billion in 2004-05).

Table 2.4: Total approvals by industry sector in 2005-06

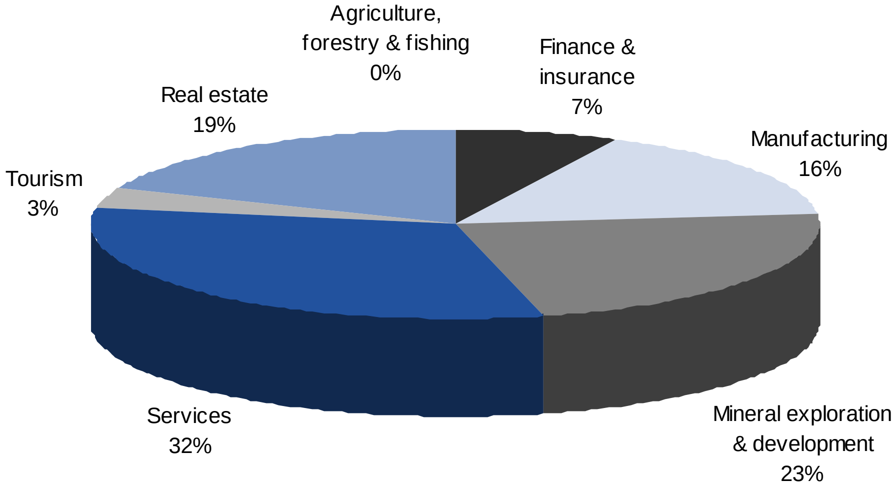
Industry sector(a)	Number of approvals	Acquisition cost $b	Development expenditure $b	Proposed investment $b
Agriculture, forestry & fishing	2	0.01	-	0.01
Finance & insurance	39	6.05	0.15	6.20
Manufacturing	61	13.50	0.19	13.69
Mineral exploration & development	76	12.52	7.23	19.75
Services	111	23.67	3.47	27.14
Tourism	57	2.64	0.13	2.77
Real estate(b)	4,755	13.85	2.36	16.21
Total	**5,101**	**72.23**	**13.52**	**85.75**

(a) Resource processing has been omitted since there were no applications approved in this industry sector in 2005-06.

(b) 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 29.

Note: Totals may not add due to rounding.
'-' indicates a figure of zero.
Excludes corporate reorganisations (85 in 2005-06).

Chart 2.5: Total approvals by industry sector in 2005-06 — 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 decreased significantly in 2005-06. Only two proposals were approved with a total value of $7.9 million, compared with 11 approvals in 2004-05 with a total value of $543.7 million (including two proposals involving a combined approved amount of $300 million).

Finance and insurance

During 2005-06, 39 proposals were approved in the finance and insurance sector with proposed investment of $6.2 billion, around 45 per cent lower than 2004-05 ($11.2 billion). The number of proposals involving investment of $100 million or more remained similar at 13 approvals (15 in 2004-05). However, only one proposal involved $1 billion or more in 2005-06, compared with 10 proposals involving a combined approved amount of approximately $10 billion during the previous year.

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

Manufacturing

Proposed investment in the manufacturing sector decreased from $22.1 billion in 2004-05 to $13.7 billion in 2005-06. Although the number of proposals approved increased from 54 in 2004-05 to 61 in 2005-06, the number of large proposals decreased. Only one proposal involved $1 billion or more in 2005-06, compared with seven proposals involving a total approved amount in excess of $13 billion during the previous year. Proposed investment in manufacturing was primarily in food, beverages and tobacco, accounting for 39 per cent ($5.3 billion) of the proposed investment in this sector.

Table 2.5: Manufacturing sector approvals in 2005-06

Industry code	Number of approvals	Acquisition cost	Development expenditure	Proposed investment
		$b	$b	$b
Chemical, petroleum & coal products	5	1.49	-	1.49
Electricity & gas	16	2.57	0.07	2.64
Food, beverages & tobacco	14	5.31	-	5.31
Machinery & equipment	13	1.45	0.12	1.57
Metal products	6	0.78	-	0.78
Non-metallic mineral products	2	1.33	-	1.33
Other(a)	5	0.56	-	0.56
Total	**61**	**13.50**	**0.19**	**13.69**

(a) Comprises: wood, wood products and furniture; textiles; and miscellaneous manufacturing.
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 decreased from $33.5 billion in 2004-05 to $19.7 billion in 2005-06. The decrease was attributed to two unusually large proposals approved in 2004-05: Xstrata Plc's proposed takeover and BHP Billiton's successful takeover of WMC Resources Limited, which involved a combined approved amount in excess of $17 billion. Excluding these two proposals results in a 24 per cent increase in proposed investment in this sector from 2004-05.

During 2005-06, 76 proposals were approved, comprising 14 to establish new businesses and 62 to acquire an interest in existing businesses. There were 26 proposals involving total investment of $100 million or more, including four for $1 billion or more. The latter four involved combined proposed investment in excess of $13 billion. Proposals in the iron ore industry accounted for 51 per cent of total approved investment in this sector.

Table 2.6: Mineral exploration and development sector approvals 2004-05 to 2005-06

Industry	Acquisitions				New businesses			
code	2004-05		2005-06		2004-05		2005-06	
	No.	$b	No.	$b	No.	$b	No.	$b
Metallic minerals								
- Copper-gold(a)	10	1.55	24	1.30	-	-	1	2.19
- Iron ore	4	3.72	7	6.68	2	0.11	3	3.36
- Other	9	19.13	7	0.22	-	-	4	3.65
Coal	22	1.15	9	0.21	5	6.47	3	0.05
Oil & gas	10	0.74	10	1.25	3	0.51	2	0.23
Other(b)	4	0.12	5	0.41	-	-	1	0.22
Total	**59**	**26.40**	**62**	**10.06**	**10**	**7.10**	**14**	**9.69**

(a) In previous years, gold was reported separately. Since copper and gold are often mined together, from now on they shall be reported jointly. The figures shown for 2004-05 have been amended from those previously published to reflect this.
(b) Comprises: non-metallic minerals; and services to mining and exploration.
Note: Totals may not add due to rounding.
'-' indicates a figure of zero.

Services

Proposed investment in the services industry sector remained relatively stable. During 2005-06, 112 proposals were approved (119 in 2004-05) with proposed investment of $27.1 billion ($30.5 billion in 2004-05). Proposals in the retail industry accounted for around 20 per cent ($5.2 billion) of total approved investment. There were 45 proposals involving proposed investment of $100 million or more, including seven of $1 billion or more. The data includes three separate occasions where multiple large proposals were approved for the same target company, involving a total approved amount in excess of $11 billion.

Table 2.7: Services sector approvals in 2005-06

Industry code	Number of approvals	Acquisition cost $b	Development expenditure $b	Proposed investment $b
Construction	7	0.49	2.60	3.08
Communications	22	4.01	0.23	4.23
Health	5	0.90	-	0.90
Other community services	5	5.68	-	5.68
Property & business services	22	1.08	-	1.08
Trade				
- Retail	12	5.19	-	5.19
- Wholesale	9	1.21	-	1.21
Transport				
- Air	6	1.85	-	1.85
- Rail	3	0.84	0.33	1.18
- Road	7	0.41	0.04	0.45
- Water	2	0.56	-	0.56
- Services to transport	3	0.82	0.20	1.02
Other(a)	8	0.66	0.06	0.72
Total	**111**	**23.67**	**3.46**	**27.14**

(a) Comprises: defence; education, museum and library services; entertainment and recreational services; storage; and personal services.

Note: Totals may not add due to rounding.
'-' indicates a figure of zero.

Tourism

Total approved foreign investment in the tourism sector increased significantly from $716 million in 2004-05 to $2.8 billion in 2005-06. There were 57 proposals approved, of which four involved investment of $100 million or more, including one for more than $1 billion. Proposed investment in accommodation facilities (hotels, resorts, motels and caravan parks) accounted for 83 per cent (86 per cent in 2004-05) of the proposed investment in this sector.

Real estate

Reflecting community concerns over foreign ownership of land, the policy places certain restrictions on acquisitions in this sector. As a result, all proposals relating to acquisitions of Australian urban land[7] must be submitted for examination, unless explicitly exempted by the *Foreign Acquisitions and Takeovers Regulations 1989* (the Regulations, see Appendices A and E).

The number of approvals in the real estate sector increased significantly from 3,949 in 2004-05 to 4,755 in 2005-06. Proposed investment associated with these proposals decreased from $20.9 billion in 2004-05 to $16.2 billion in 2005-06. Table 2.8 on page 33 provides a breakdown of approved investment in real estate in 2005-06.

Residential real estate

Developed

During 2005-06, 2,406 proposals were approved for the acquisition of developed residential real estate, a significant increase from the 1,840 that were approved in 2004-05. Proposed investment approved was $1.5 billion compared with $1.2 billion in 2004-05. **Existing residential property** (excluding annual programmes) accounts for 95 per cent of the proposed investment. This consists primarily of temporary residents acquiring an established dwelling as their principal place of residence.[8]

There were 21 **rejections** of proposed acquisitions of **developed residential property** by temporary residents in 2005-06 (32 in 2004-05). The proposed investment involved in these rejected proposals was $10.8 million.

The rejections, in most cases, were for one or more of the following reasons:

- the prospective foreign purchaser did not hold a temporary resident visa that permitted continuous residence in Australia for a further period of 12 months or more;

- the foreign person was not going to use the property as their principal place of residence; and/or

- the applicant held a student visa and the value of the property they proposed to purchase unreasonably exceeded the $300,000 general limit applicable to student visa holders.

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7 Australian urban land is defined under the Act to be all Australian land that is not used wholly and exclusively for carrying on a business of primary production.

8 Includes a small number of approvals relating to foreign companies acquiring existing residential property for company employees to reside in.

For development

In 2005-06, 2,242 proposals were approved for acquisitions of residential real estate for development (including eligible redevelopment) compared with 2,008 in 2004-05.[9] Proposed investment approved was $10.1 billion compared with $13.3 billion in 2004-05. Proposed development expenditure decreased from $3.2 billion in 2004-05 to $1.6 billion in 2005-06.

Vacant land includes the purchase of individual blocks of land and broadacre land for residential subdivision. Development of vacant land consists primarily of single dwelling construction, and to a lesser extent integrated residential developments (such as townhouses and units). In 2005-06, 1,120 such proposals (1,079 in 2004-05) were approved, with proposed investment of $2.3 billion ($4.3 billion in 2004-05). Approvals are generally subject to a condition that continuous development commences within 12 months. In addition, the parties are required to report on the completion of development to demonstrate compliance with the development condition. The Government views seriously any breaches of conditions imposed under the Act (see section on monitoring and compliance activity in Chapter 1).

In 2005-06, 785 proposals from *individuals* were approved under the **off-the-plan** arrangements, involving proposed investment of $431 million (compared with 644 and $351 million in 2004-05). These involve applicants who propose to purchase a newly constructed dwelling directly from a developer. There were also 270 proposals approved from *real estate developers* seeking advance approval (compared with 275 in 2004-05). Such approvals enable developers to sell up to 50 per cent of the individual dwellings in a new development to foreign persons, who are then not required to separately seek foreign investment approval. The developer is required to report on completed sales. The value of such developments fell from $7.0 billion in 2004-05 to $6.4 billion in 2005-06.

Certain points should be noted in relation to the Board's statistics for off-the-plan applications. Firstly, the Board's figures overstate the likely extent of actual foreign purchases: developers with off-the-plan approval seldom sell to foreign purchasers the full 50 per cent of the dwellings for which they hold approval. In most cases, the proportion is under 10 per cent. There is also a significant lag between the granting of an approval, which usually occurs during the construction phase, and sales.

Secondly, the off-the-plan category has the approved value attributed entirely to acquisition cost and not to proposed development expenditure. This reflects the fact that the approval relates to the purchase and expected sale price of completed dwellings.

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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.

Developed property for **redevelopment** involves the acquisition of existing residential property for the purpose of demolition and construction of new residential dwellings. During 2005-06, 57 proposals were approved with a total value of $289.7 million, compared with 55 approvals in 2004-05 with a total value of $763.9 million (including one large proposal in excess of $500 million). Applications for redevelopment primarily involve construction of integrated residential developments (such as townhouses and units), since the policy requires such proposals to provide for an increase in the housing stock, unless the existing dwelling is at the end of its economic life (derelict or uninhabitable).

There was a decrease in the number of **rejections** relating to the proposed acquisition of **residential property for development** (including redevelopment) from 20 in 2004-05 to 16 in 2005-06. The rejections, in most cases, were for one or more of the following reasons:

- the planned development expenditure was not considered sufficient in relation to the acquisition price for the property (the policy requires that the proposed development expenditure is equivalent to at least 50 per cent of the acquisition cost or current market value of the land, whichever is higher);
- the proposed timetable for development was unsatisfactory given the normal requirement that it commences within 12 months;
- the property proposed to be acquired for the purpose of redevelopment (involving construction of a single dwelling) was not considered to be uninhabitable, or at the end of its economic life, and consequently the proposed redevelopment would not result in an increase in the housing stock;
- the prospective foreign purchaser had not established that they had the technical and financial capacity, nor the necessary planning approvals, to undertake the proposed development within a reasonable timeframe;
- the property being purchased was a new dwelling and there was no other similar dwelling developed by the same vendor that met the required criteria for the purchase of new dwellings by foreign persons; and/or
- the applicant had breached conditions associated with a previously approved application.

Commercial real estate

Developed

In 2005-06, there were 62 approvals to purchase developed commercial real estate (for example, shopping centres, office buildings and warehouses) involving proposed investment of $3.6 billion (compared with 36 approvals and an investment value of $4.5 billion in 2004-05). This data represents only part of the total foreign investment that would have occurred in commercial real estate as there are a number of exemptions under the Regulations.

For development

During 2005-06, there were 45 approvals to purchase land for commercial development involving proposed investment of $1.0 billion, compared with 57 proposals and proposed investment of $1.8 billion in 2004-05.

Annual programmes

The **annual programme** arrangements allow foreign persons to apply for annual approvals for a programme of land acquisition up to a specified monetary limit, on condition that they subsequently report on the actual acquisitions and associated development. While the granting of such an approval relieves the foreign person of the requirement to seek approval for individual land acquisitions, it does not relieve them of their responsibility to comply with the requirements of the policy and the conditions of their approval, for example, purchases not exceeding the approved amount.

In 2005-06, a total of 19 annual programmes were approved with proposed investment of $763.9 million, compared with 18 approvals and proposed investment of $1.7 billion in 2004-05 (including two proposals with a total value of $900 million). The majority of approvals involved the acquisition of residential real estate for development, accounting for 85 per cent of all annual programmes with proposed investment of $648.1 million (96 per cent and $1.6 billion in 2004-05).

During 2005-06, three annual programmes were approved to purchase land for commercial development involving proposed investment of $23.0 million, compared with eight proposals and proposed investment of $71.9 million in 2004-05.

A small number of annual programmes involving acquisitions of developed real estate were approved in 2005-06, six for residential and one for commercial property, with proposed investment of $82.6 million and $10.0 million respectively. Annual programmes for developed residential real estate primarily involve foreign companies acquiring properties to house their employees. No annual programmes for developed real estate (residential or commercial) were recorded in 2004-05.[10]

As with off-the-plan approvals for developers, the Board's figures for annual programmes overstate the likely extent of actual foreign purchases since the value of proposed investment associated with annual programme approvals represents the maximum amount the foreign person may acquire.

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10 The previous case management system did not record annual programmes separately within the developed real estate categories.

Table 2.8: Real estate sector approvals in 2005-06

	Number of approvals	Acquisition cost $b	Development expenditure $b	Proposed investment $b
Residential				
Developed(a)				
- existing residential property	2,400	1.45	-	1.45
- annual programmes	6	0.08	-	0.08
Sub-total 'Developed'	*2,406*	*1.53*	-	*1.53*
For development				
- vacant land	1,120	0.99	1.34	2.34
- off-the-plan				
individual	785	0.43	-	0.43
developer	270	6.36	-	6.36
Sub-total 'off-the-plan'	*1,055*	*6.79*	-	*6.79*
- redevelopment	57	0.09	0.20	0.29
- annual programmes	10	0.61	0.04	0.64
Sub-total 'For development'	*2,242*	*8.49*	*1.58*	*10.07*
Total residential	4,648	10.01	1.58	11.60
Commercial				
Developed				
- existing commercial property	61	3.60	-	3.60
- annual programmes	1	0.01	-	0.01
Sub-total 'Developed'	*62*	*3.61*	-	*3.61*
For development				
- vacant commercial property	43	0.22	0.76	0.98
- annual programmes	2	0.01	0.01	0.02
Sub-total 'For development'	*45*	*0.23*	*0.77*	*1.00*
Total commercial	107	3.84	0.77	4.61
Total residential & commercial	**4,755**	**13.85**	**2.36**	**16.21**

(a) Developed property for redevelopment is included as residential real estate for development.
Note: Totals may not add due to rounding.
'-' indicates a figure of zero.

Real estate by location of investment

Table 2.9 provides details of proposed investment in the the real estate sector, according to location of investment. Queensland and New South Wales were the main locations of proposed investment in real estate with 28 per cent and 27 per cent respectively of the total approved (compared with 35 per cent and 26 per cent in 2004-05). The value of proposed investment increased in Victoria and Western Australia, accounting for 14 per cent and 10 per cent respectively (compared with 8 per cent and 6 per cent in 2004-05).

There was a decrease in the value of the proposals approved that involved land acquisitions in more than one state or territory, from 22 per cent of the total value in 2004-05 to 13 per cent in 2005-06.

During 2005-06, approximately 2 per cent of approvals in the real estate sector involved the acquisition of real estate located offshore.[11] This reflects proposed foreign investment in Australian listed property trusts or funds, whose principal activities are to invest in foreign real estate (primarily commercial properties located in the US).

Table 2.9: Real estate sector approvals in 2005-06 – location of investment

Location	Residential		Commercial		Total
	Developed	For development	Developed	For development	
	$b	$b	$b	$b	$b
NSW	0.44	3.07	0.78	0.14	4.44
VIC	0.26	1.24	0.58	0.17	2.25
QLD	0.26	3.77	0.32	0.20	4.55
WA	0.34	1.08	0.23	0.01	1.66
SA	0.12	0.18	-	-	0.30
TAS	0.01	0.02	-	-	0.03
ACT	0.01	0.06	0.01	-	0.07
NT	0.00	0.00	-	0.45	0.46
Various(a)	0.08	0.65	1.38	0.02	2.13
Offshore	-	-	0.31	-	0.31
Total	**1.53**	**10.07**	**3.61**	**1.00**	**16.21**
Number of approvals	***2,406***	***2,242***	***62***	***45***	***4,755***

(a) 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.

11 Not to be confused with offshore takeover (see section on foreign-to-foreign transactions in Chapter 3).

Approvals by country of investor

Data on proposed investment associated with approvals in 2005-06 are 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 Switzerland, China, the United Kingdom (UK) and Germany. Chapter 4 provides information on foreign investment stocks and flows by country.

Approved proposed investment from the US decreased from $37.2 billion in 2004-05 to $23.4 billion in 2005-06. This decrease was partially attributed to the higher thresholds applicable to US investors throughout the 2005-06 period — introduced on 1 January 2005, these thresholds only affected US proposed investment for half of the 2004-05 Annual Report period. Proposed investment was primarily in the services sector, accounting for 62 per cent of total US investment. Refer to Chapter 4 for further discussion on the Australia/US investment relationship.

Switzerland is recorded as a significant source of approved proposed investment in 2005-06, accounting for a total of $14.4 billion. Ninety per cent of Swiss approvals ($13.0 billion) involved applications from a single nominee company for targets in multiple industry sectors.

China emerged as a significant investor in 2005-06 with approvals to the value of $7.3 billion. This proposed investment was primarily in the mineral exploration and development sector, accounting for 93 per cent of total Chinese investment, including two proposals with a total approved amount in excess of $6 billion.

Approved proposed investment from the UK decreased significantly from $18.1 billion in 2004-05 to $7.1 billion in 2005-06. The majority of UK proposed investment was in the real estate, manufacturing and services sectors, together accounting for 77 per cent of total proposed UK investment. The UK was the leading source of foreign investment in real estate, providing 11 per cent of proposed investment in that sector.

Germany continued as a major foreign investor in 2005-06 accounting for $4.3 billion of proposed investment, mainly within the services and manufacturing sectors.

Table 2.10: Approvals by country of investor in 2005-06 – location of investment

Country(a)	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Various(b)	Offshore	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
US	685	592	320	448	5	1	45	2	21,135	168	23,400
Switzerland	3	205	83	95	-	-	-	5	13,697	362	14,449
China(c)	84	91	2,975	3,786	51	0	4	-	223	45	7,259
UK	698	194	573	908	77	15	21	2	3,749	847	7,083
Germany	355	516	1,418	222	502	1	17	-	1,210	9	4,251
Singapore	959	71	362	260	69	1	-	21	1,438	20	3,200
Canada	62	5	13	26	2	2	1	61	2,385	50	2,607
Japan	81	33	324	221	552	-	-	-	1,161	100	2,472
Netherlands	164	56	1,321	21	12	0	6	-	372	63	2,014
South Africa	55	838	53	156	4	12	1	-	369	97	1,585
France	549	16	13	3	0	-	-	-	1,000	-	1,580
New Zealand	3	39	98	1	-	0	-	-	872	415	1,427
Hong Kong	62	44	479	44	1	110	-	-	122	11	874
Other EU	147	117	70	34	4	0	0	475	1,562	-	2,412
Other ASEAN	43	49	18	75	7	130	1	0	425	-	748
Not allocated(d)	2,167	843	2,998	397	-	-	-	-	-	-	6,404
Other(e)	284	93	165	790	14	4	5	2	558	249	2,159
Sub-total	*6,400*	*3,802*	*11,282*	*7,486*	*1,300*	*276*	*100*	*568*	*50,279*	*2,435*	*83,925*
Australia(f)	226	13	208	226	-	-	18	-	1,030	105	1,826
Total	**6,594**	**3,815**	**11,417**	**7,705**	**1,300**	**277**	**118**	**568**	**51,420**	**2,539**	**85,751**

(a) Includes overseas territories.
(b) Comprises approved proposals where the investment is to be undertaken in more than one state or territory.
(c) China excludes Special Administrative Regions and Taiwan.
(d) Off-the-plan approvals to real estate developers have been recorded as not allocated to a country because the country of investors is not known in advance.
(e) Comprises all other countries excluding Australia.
(f) The investment identified as originating from Australia represents the contribution by Australian-controlled companies and Australian residents to the total investment associated with foreign investment proposals in which they are in partnership with foreign interests. It does not generally include the contribution attributable to minority Australian shareholders in companies with majority or controlling foreign shareholders.

Note: Totals may not add due to rounding.
'-' indicates a figure of zero and '0' indicates a figure of less than $0.5 million.

Table 2.11: Approvals by country of investor in 2005-06 – industry sector

Country(a)	Number of approvals(b)	Agriculture forestry & fishing	Finance & insurance	Manufacturing	Mineral exploration & development	Real estate	Services	Tourism	Total
		$m	$m	$m	$m	$m	$m	$m	$m
US	307	-	1,036	4,299	1,236	1,201	14,047	1,581	23,400
Switzerland	69	-	3,386	1,063	6,290	1,243	2,468	-	14,449
China(c)	437	-	-	223	6,758	279	-	-	7,259
UK	2,204	8	945	1,822	703	1,851	1,747	7	7,083
Germany	109	-	51	1,103	215	766	1,741	375	4,251
Singapore	213	-	217	36	81	1,545	1,132	189	3,200
Canada	114	-	35	-	2,411	114	47	-	2,607
Japan	86	-	103	1,639	254	441	22	14	2,472
Netherlands	81	-	199	-	0	166	1,569	80	2,014
South Africa	278	-	19	157	308	259	843	-	1,585
France	54	-	25	5	-	71	1,475	4	1,580
New Zealand	45	-	145	1,101	-	104	39	39	1,427
Hong Kong	30	-	-	650	51	127	46	-	874
Other EU	228	-	35	877	154	750	590	7	2,412
Other ASEAN	318	-	-	300	-	388	58	2	748
Not allocated(d)	272	-	-	-	-	6,252	-	152	6,404
Other(e)	527	-	-	-	1,021	472	514	154	2,159
Sub-total	*5,372*	*8*	*6,196*	*13,273*	*19,482*	*16,026*	*26,337*	*2,603*	*83,925*
Australia(f)	77	-	-	414	266	183	799	164	1,826
Total	**5,449**	**8**	**6,196**	**13,687**	**19,749**	**16,209**	**27,136**	**2,768**	**85,751**

(a) Includes overseas territories.
(b) These figures indicate the total number of proposals in which investors from the particular country have an interest. Proposals 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.
(c) China excludes Special Administrative Regions and Taiwan.
(d) Off-the-plan approvals to real estate developers have been recorded as not allocated to a country because the country of investors is not known in advance.
(e) Comprises all other countries excluding Australia.
(f) The investment identified as originating from Australia represents the contribution by Australian-controlled companies and Australian residents to the total investment associated with foreign investment proposals in which they are in partnership with foreign interests. It does not generally include the contribution attributable to minority Australian shareholders in companies with majority or controlling foreign shareholders.

Note: Totals may not add due to rounding.
'-' indicates a figure of zero and '0' indicates a figure of less than $0.5 million.