Chapter 2

Foreign investment proposals

Foreign investment proposals

This chapter provides an overview and statistical information on applications considered in 2006-07.

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 in a given year. The latter is more reliably captured by Australian Bureau of Statistics (ABS) data, which seek to reflect more comprehensively 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 net 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) 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 if the proposal is in fact implemented. In addition:

- 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 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 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 reflect changes 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. 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 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 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 resulted in an increase in foreign investment proposals in this sector; and

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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.

  - immigration policies control the number of temporary resident visa holders 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] 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] This has not significantly affected the proportion of approvals that are subject to conditions (75 per cent of total approvals under FIMS in 2006-07 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:

- 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.

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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 2006-07

Applications considered comprises **all** investment proposals finalised during 2006-07 (approved, rejected, withdrawn or exempt), irrespective of the date they were submitted.[4] Corporate reorganisations are included here (88 in 2006-07), whereas they are excluded from the analysis of approved investment provided later in this chapter.[5]

The number of applications considered during 2006-07 was 7,025 around 22 per cent higher than the 5,781 in 2005-06. 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 6,157, applications **approved** in 2006-07 (a 19 per cent increase on the 5,186 approvals in 2005-06), 4,637 were approved subject to conditions and 1,520 without conditions being imposed. All but one of the conditional approvals were in the real estate sector, where 83 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.

A total of 39 proposals were **rejected** in 2006-07 (37 in 2005-06), representing less than one per cent of all proposals considered. All of the rejected proposals involved the acquisition of real estate. Twenty-seven of these were the subject of a Final Order made under the FATA and nine involved formal rejection under the policy. No Divestiture Orders were made during the period — the remaining three rejected proposals involved the applicants voluntarily divesting their interests in these properties without the need for Divestiture Orders to be issued.

In 2006-07, 629 proposals were **withdrawn** by the applicants, representing a 69 per cent increase on the 373 withdrawals in 2005-06. 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 were deferred or ultimately did not proceed for commercial or other reasons.

During 2006-07, 200 proposals were determined to be **exempt** compared with 185 in 2005-06. Under the policy, foreign investors are required to submit proposals where

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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.

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

any doubt exists as to whether they are notifiable. In some cases, the Board's secretariat determines proposals to be exempt under the FATA or the policy. In other cases, proposals are determined exempt as they are not subject to the FATA.

Table 2.1: Applications considered 2001-02 to 2006-07 — number of proposals

Outcome	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	No.	No.	No.	No.	No.	No.
Approved unconditionally	1,041	1,105	995	1,127	1,386	1,520
Approved w ith conditions	3,405	3,562	3,452	3,233	3,800	4,637
Total approved	**4,446**	**4,667**	**4,447**	**4,360**	**5,186**	**6,157**
Rejected	77	80	64	55	37	39
Total decided	**4,523**	**4,747**	**4,511**	**4,415**	**5,223**	**6,196**
Withdraw n	402	365	319	287	373	629
Exempt	172	203	206	182	185	200
Total considered	**5,097**	**5,315**	**5,036**	**4,884**	**5,781**	**7,025**

Note: Includes corporate reorganisations (88 in 2006-07).

Applications decided in 2006-07

Applications decided comprises all proposals approved (conditionally or unconditionally) or rejected during 2006-07, 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 2006-07 was 6,196 around 19 per cent higher than in 2005-06 (see Table 2.1). The value of proposed investment associated with decided applications was $156.4 billion, approximately 82 per cent higher than in 2005-06. 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 2001-02 to 2006-07 — proposed investment

Outcome	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	$b	$b	$b	$b	$b	$b
Approved unconditionally	70.2	53.5	58.9	60.4	72.5	140.3
Approved w ith conditions	47.7	32.2	40.1	59.1	13.3	16.1
Total approved	**117.9**	**85.7**	**99.0**	**119.5**	**85.8**	**156.4**
Rejected	0.1	0.0	0.1	0.0	0.0	0.0
Total decided	**118.0**	**85.8**	**99.1**	**119.5**	**85.8**	**156.4**

Note: Totals may not add due to rounding.
'0.0' indicates a figure of less than $50 million.
Includes corporate reorganisations (88 in 2006-07).

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 2006-07, the majority of the increase in the number of applications decided was within the real estate sector, whereas the majority of the increase 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 2001-02 to 2006-07 — number of proposals

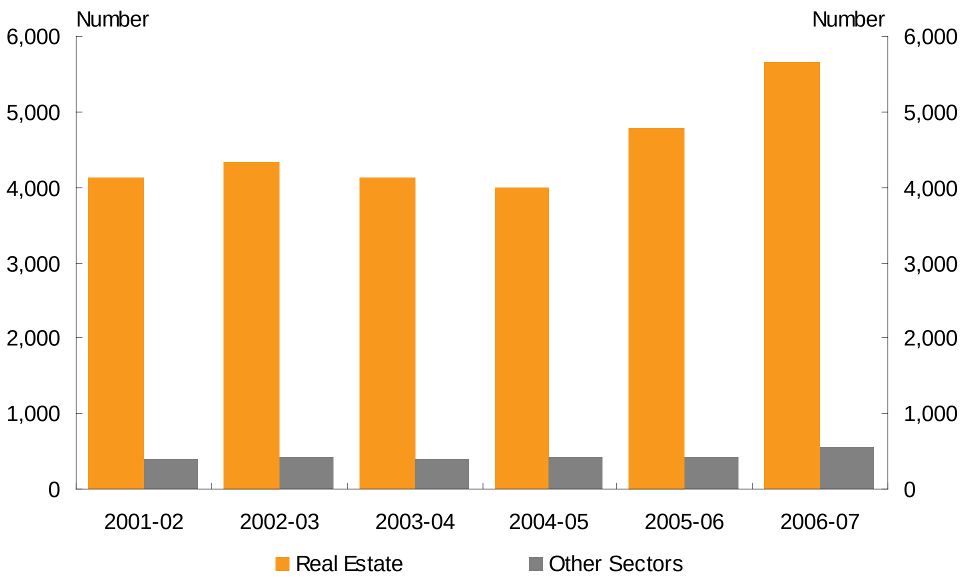
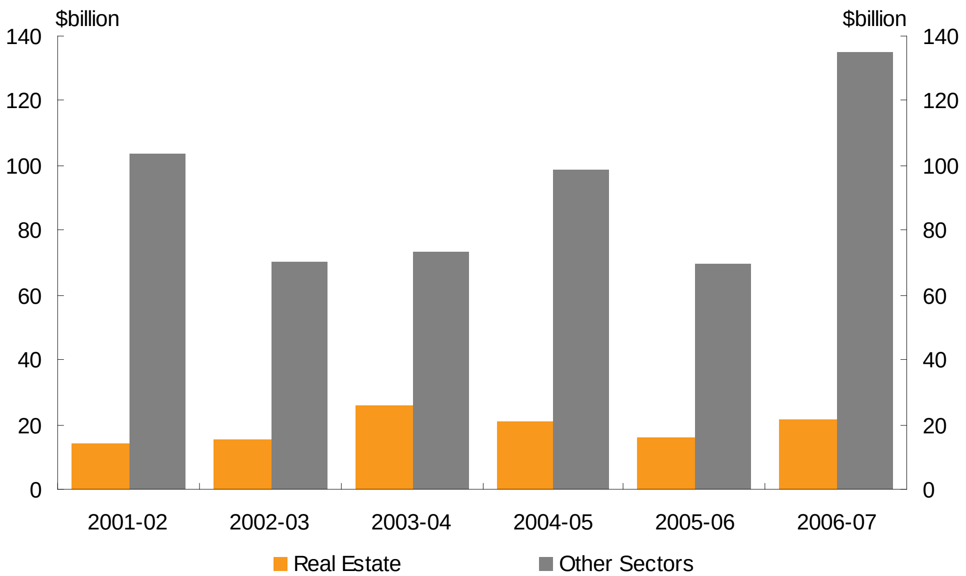


Chart 2.2: Applications decided 2001-02 to 2006-07 — proposed investment



Approvals by value

The remainder of this chapter analyses applications approved during 2006-07 (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 all categories during 2006-07, although the increase was more pronounced in the two largest categories. There was a significant increase in approvals involving proposed investment of $500 million or more (but less than $1 billion), with 87 per cent more proposals and 73 per cent higher proposed investment than 2005-06. Additionally, there was a 43 per cent increase in approvals involving proposed investment of $1 billion or more, with 185 per cent higher proposed investment.

The increase in the value of approved investment mainly reflects a small number of large value transactions together with a lower than usual 2005-06 amount. In 2006-07, there were five individual investment proposals which accounted for approximately $49 billion, comprising a single proposal valued at nearly $17 billion and another valued at $10 billion, as well as three proposals approved for the same target company involving a total amount in excess of $22 billion.

Table 2.3: Total approvals by value 2003-04 to 2006-07

Value of proposal	2003-04		2004-05		2005-06		2006-07	
	No.	$b	No.	$b	No.	$b	No.	$b
< $1 million	3,335	1.4	3,269	1.4	3,955	1.8	4,598	2.24
≥ $1 million & < $50 million	784	7.1	776	7.9	892	7.4	1,142	8.6
≥ $50 million & < $100 million	87	6.0	92	6.3	105	7.3	108	7.5
≥ $100 million & < $500 million	113	23.2	97	21.2	112	25.5	158	32.2
≥ $500 million & < $1 billion	25	15.2	26	17.8	23	16.4	43	28.4
≥ $1 billion	19	46.1	23	64.9	14	27.2	20	77.5
Total	**4,363**	**99.0**	**4,283**	**119.5**	**5,101**	**85.8**	**6,069**	**156.4**

Note: Totals may not add due to rounding.
Excludes corporate reorganisations (88 in 2006-07).

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. Additionally the large increases in proposed investment in the $500 million or more (but less than $1 billion), and $1 billion or more categories, can be seen in Chart 2.4, correlating with the significant increase in proposed investment in non-real estate proposals shown in Chart 2.2.

Chart 2.3: Total approvals by value 2003-04 to 2006-07 — number of proposals

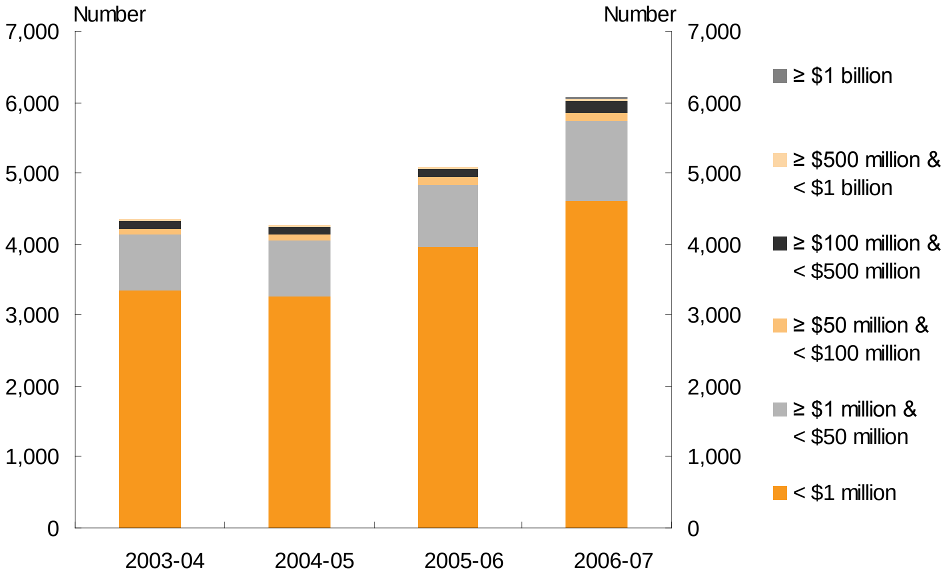
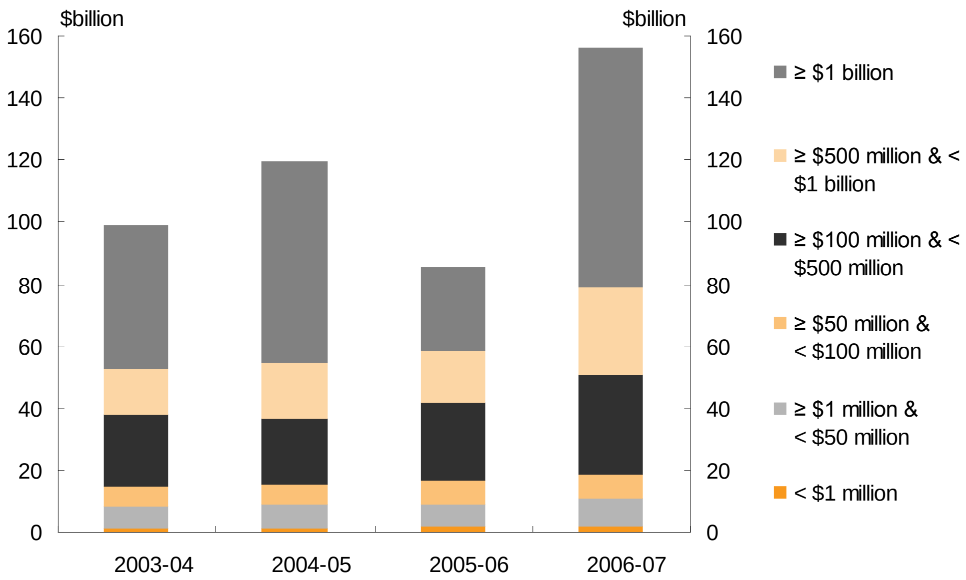


Chart 2.4: Total approvals by value 2003-04 to 2006-07 — proposed investment



Approvals by sector

Table 2.4 provides applications approved during 2006-07 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 2006-07:

- the manufacturing sector was the largest industry sector by value, with approvals totalling $62.8 billion ($13.7 billion in 2005-06); and
- other significant sectors by value of proposed investment were mineral exploration and development with $32.3 billion ($19.7 billion in 2005-06), services with $28.9 billion ($27.1 billion in 2005-06 — the largest industry sector by value for that period) and real estate with $21.4 billion ($16.2 billion in 2005-06).

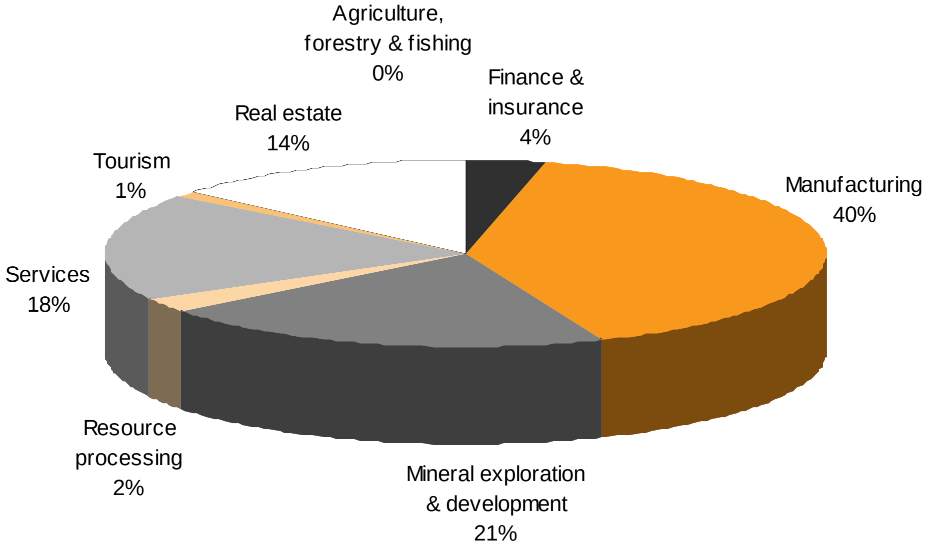
Table 2.4: Total approvals by industry sector in 2006-07

Industry sector	Number of approvals	Acquisition cost $b	Development expenditure $b	Proposed investment $b
Agriculture, forestry & fishing	4	0.10	-	0.10
Finance & insurance	38	5.54	0.09	5.63
Manufacturing	82	61.45	1.40	62.85
Mineral exploration & development	141	19.41	12.87	32.28
Resource processing	8	3.66	-	3.66
Services	116	28.47	0.46	28.93
Tourism	68	1.54	0.01	1.54
Real estate(a)	5,612	17.10	4.29	21.39
Total	**6,069**	**137.28**	**19.11**	**156.39**

(a) 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 (88 in 2006-07).

Chart 2.5: Total approvals by industry sector in 2006-07 — 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 2006-07. Four proposals were approved with a total value of \$104.0 million, compared with only two approvals in 2005-06 with a total value of \$7.9 million.

Finance and insurance

During 2006-07, 38 proposals were approved in the finance and insurance sector with proposed investment of \$5.6 billion, slightly lower than 2005-06 (39 proposals and \$6.2 billion). The number of proposals involving investment of \$100 million or more remained relatively stable at 16 approvals (13 in 2005-06), with only one proposal involving \$1 billion or more.

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

Manufacturing

Proposed investment in the manufacturing sector increased significantly from $13.7 billion in 2005-06 to $62.8 billion in 2006-07. The number of proposals approved increased from 61 in 2005-06 to 82 in 2006-07. Fifty proposals involved total investment of $100 million or more in 2006-07. Of these, seven involved $1 billion or more, including a single proposal valued at nearly $17 billion, compared with only one proposal in excess of $1 billion during the previous year. Proposed investment in manufacturing was primarily in electricity and gas, accounting for 52 per cent ($32.8 billion) of the proposed investment in this sector. This includes multiple large proposals approved for the same target company, involving a total approved amount in excess of $22 billion.

Table 2.5: Manufacturing sector approvals in 2006-07

Industry code	Number of approvals	Acquisition cost $b	Development expenditure $b	Proposed investment $b
Chemical, petroleum & coal products	5	2.21	-	2.21
Electricity & gas	33	31.44	1.32	32.76
Food, beverages & tobacco	22	6.32	0.01	6.33
Machinery & equipment	10	3.28	-	3.28
Metal products	3	0.16	-	0.16
Non-metallic mineral products	2	17.40	-	17.40
Other(a)	7	0.64	0.07	0.71
Total	**82**	**61.45**	**1.40**	**62.85**

(a) Comprises: miscellaneous manufacturing; water, sewerage and drainage; paper and paper products; 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 64 per cent, from $19.7 billion in 2005-06 to $32.3 billion in 2006-07. A total of 141 proposals were approved (compared with 76 in 2005-06), comprising nine to establish new businesses and 132 to acquire an interest in existing businesses. There were 47 proposals involving total investment of $100 million or more, including six for $1 billion or more. The latter six involved combined proposed investment in excess of $19 billion. Proposals in the oil and gas industry accounted for 41 per cent of total approved investment in this sector.

Table 2.6: Mineral exploration and development sector approvals 2005-06 to 2006-07

Industry code	Acquisitions				New businesses			
	2005-06		2006-07		2005-06		2006-07	
	No.	$b	No.	$b	No.	$b	No.	$b
Metallic minerals								
- Copper-gold(a)	24	1.30	37	2.84	1	2.19	-	-
- Iron ore	7	6.68	13	1.17	3	3.36	-	-
- Uranium	-	-	12	1.75	-	-	-	-
- Other	7	0.22	16	6.27	4	3.65	1	0.38
Coal	9	0.21	30	4.19	3	0.05	5	1.48
Oil & gas	10	1.25	13	2.24	2	0.23	2	11.00
Other(b)	5	0.41	11	0.95	1	0.22	1	0.01
Total	**62**	**10.06**	**132**	**19.41**	**14**	**9.69**	**9**	**12.87**

(a) From 2005-06 onwards, copper and gold are reported jointly since they are often mined together.
(b) 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

Proposed foreign investment in the resource processing sector re-emerged with eight approvals in 2006-07 following two years of nil proposals. Total proposed investment was $3.7 billion, including one proposal involving investment of approximately $2 billion.

Services

During 2006-07, proposed investment in the services industry sector increased slightly to 116 proposals (111 in 2005-06) with proposed investment of $28.9 billion ($27.1 billion in 2005-06). Proposals in the communications industry accounted for around 32 per cent ($9.2 billion) of total approved investment. There were 59 proposals involving proposed investment of $100 million or more, including five of $1 billion or more.

As discussed at the beginning of this chapter, the removal of foreign ownership restrictions in the media sector in April 2007 resulted in an increase in foreign investment proposals in this sector.

Table 2.7: Services sector approvals in 2006-07

Industry code	Number of approvals	Acquisition cost $b	Development expenditure $b	Proposed investment $b
Construction	12	2.30	-	2.30
Communications	27	9.17	0.03	9.19
Health	15	6.37	0.18	6.55
Other community services	3	0.58	-	0.58
Property & business services	16	1.83	-	1.83
Trade				
- Retail	9	1.21	-	1.21
- Wholesale	4	0.53	-	0.53
Transport				
- Air	5	2.04	0.01	2.05
- Rail	2	0.05	-	0.05
- Road	9	2.23	-	2.23
- Water	2	0.83	-	0.83
- Services to transport	5	1.15	-	1.15
Other(a)	7	0.18	0.24	0.43
Total	**116**	**28.47**	**0.46**	**28.93**

(a) Comprises: defence; education, museum and library services; storage; entertainment and recreational services; 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 fell by 46 per cent, from $2.8 billion in 2005-06 to $1.5 billion in 2006-07. The number of proposals increased from 57 to 68, including four involving proposed investment of $100 million or more. However, in contrast to the previous year, none of these proposals involved investment of more than $1 billion. Proposed investment in accommodation facilities (hotels, resorts, motels and caravan parks) accounted for 98 per cent (83 per cent in 2005-06) of the proposed investment in this sector.

During 2006-07, five hotels received designation under the policy as Strata Titled Hotels (STHs) and two resorts received designation as Integrated Tourism Resorts (ITRs). These approvals permit future sales to foreign persons without such foreign purchasers requiring individual foreign investment approval. As these proposals represent long-term future sales, no consideration amount can be calculated and hence no proposed investment amount is recorded for these STHs and ITRs during the period.

Real estate

Reflecting community concerns over foreign ownership of land, the policy places certain restrictions on acquisitions in this sector. As a result, all proposed acquisitions of Australian urban land[7] must be submitted for examination, unless they are 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 4,755 in 2005-06 to 5,612 in 2006-07 (an 18 per cent increase). Proposed investment associated with these proposals increased by 32 per cent, from $16.2 billion in 2005-06 to $21.4 billion in 2006-07. Table 2.8 on page 34 provides a breakdown of approved investment in real estate in 2006-07.

Residential real estate

Developed

During 2006-07, 2,991 proposals were approved for the acquisition of developed residential real estate, a 24 per cent increase from the 2,406 that were approved in 2005-06. Proposed investment approved was $2.3 billion, an increase of 53 per cent compared with $1.5 billion in 2005-06. **Developed residential property** (excluding annual programmes) accounts for 94 per cent of the proposed investment with $2.2 billion. This consists primarily of temporary residents acquiring an established dwelling as their principal place of residence.[8]

There were 24 **rejections** of proposed acquisitions of **developed residential property** by foreign persons in 2006-07 (21 in 2005-06). Twenty-one of these were rejected via a Final Order. The remaining three applications were not subject to Final Orders, as the applicants had already acquired these properties in breach of the FATA. However, upon receiving advice that their acquisitions did not comply with the Government's foreign investment policy, the applicants divested their interests in these properties and Divestiture Orders were not made.

The rejections, in most cases, were because 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;
- was not going to use the property as their principal place of residence; and/or

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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.

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

- 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.

For development

In 2006-07, 2,523 proposals were approved for acquisitions of residential real estate for development (including eligible redevelopment) compared with 2,242 in 2005-06.[9] Proposed investment approved was $11.1 billion compared with $10.1 billion in 2005-06. Proposed development expenditure increased from $1.6 billion in 2005-06 to $2.0 billion in 2006-07.

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 2006-07, 1,378 vacant land proposals were approved (a 23 per cent increase on the 1,120 approved in 2005-06), with proposed investment of $2.9 billion ($2.3 billion in 2005-06). 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.

In 2006-07, 838 proposals from *individuals* were approved for **off-the-plan** purchases, involving proposed acquisition costs of $476.2 million (compared with 785 and $431.0 million in 2005-06). These involve applicants who propose to purchase a newly constructed dwelling directly from a developer. There were also 238 proposals approved from *real estate developers* seeking advance off-the-plan approval (compared with 270 in 2005-06). 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 by 9 per cent, from $6.4 billion in 2005-06 to $5.8 billion in 2006-07.

Certain points should be noted in relation to the Board's statistics for advance off-the-plan applications. Firstly, the Board's figures overstate the likely extent of actual foreign purchases: developers with advance 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.

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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.

Secondly, the advance off-the-plan category has the approved value attributed entirely to acquisition cost and not to proposed development expenditure. This reflects the fact that approvals relate to purchases of dwellings by foreign persons (the approval does not apply to the developer for the development of the dwellings) and is based on 50 per cent of the expected sale price of the total dwellings within the development.

Developed property for **redevelopment** involves the acquisition of existing residential property for the purpose of demolition and construction of new residential dwellings. The number of redevelopment proposals remained relatively stable with 59 approvals in 2006-07 (compared with 57 the previous year), however the proposed investment associated with these approvals increased by 26 per cent from $289.7 million in 2005-06 to $365.1 million in 2006-07. Applications for redevelopment primarily involve construction of multiple-dwelling residential developments (such as townhouses and units), since the policy requires redevelopment proposals to provide for 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.

There was a slight decrease in the number of **rejections** relating to the proposed acquisition of **residential property for development** (including redevelopment) from 16 in 2005-06 to 14 in 2006-07. Rejections of the proposed acquisition of residential property for development, in most cases, are 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 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 capacity, for example the technical and financial means, or 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;

- the applicant had breached conditions associated with a previously approved application; and/or
- where the applicant was a real estate developer applying for advance off-the-plan approval — the development contained less than the minimum of 10 dwellings required for such approvals.

Commercial real estate

Developed

In 2006-07, there were 50 approvals to purchase **developed commercial real estate** (for example, shopping centres, office buildings and warehouses), a 19 per cent decrease from 62 approvals in 2005-06. However, proposed investment increased by 28 per cent to $4.6 billion (compared with an investment value of $3.6 billion in 2005-06). 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, including a general exemption for non-vacant, non-heritage listed commercial property valued below $50 million.

For development

During 2006-07, there were 48 approvals to purchase land for **commercial development** involving proposed investment of $3.3 billion, compared with 45 proposals and proposed investment of $1.0 billion in 2005-06.

There was one **rejection** of a proposed acquisition of **commercial property for development** by foreign persons in 2006-07. Rejections of proposed acquisitions of commercial property for development, in most cases, are 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; and/or
- the prospective foreign purchaser had not established that they had the capacity, for example the technical and financial means, or the necessary planning approvals, to undertake the proposed development within a reasonable timeframe.

Annual programmes

The **annual programme** arrangements allow foreign persons to apply for annual approvals for a programme of real estate acquisitions up to a specified monetary limit, on condition that they subsequently report on the actual acquisitions and any associated development. The granting of such an approval relieves the foreign person of the requirement to seek approval for individual real estate acquisitions up to the approved value during the approval year. However, 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 2006-07, a total of 28 annual programmes were approved with proposed investment of $3.7 billion, compared with 19 approvals and proposed investment of $763.9 million in 2005-06. Annual programmes primarily involved the acquisition of residential real estate for development, accounting for 44 per cent of all annual programmes (85 per cent in 2005-06). As in 2005-06 there were 10 approved proposals in this category. However, in 2006-07 proposed investment was $1.6 billion ($648.1 million in 2005-06).

During 2006-07, four annual programmes involving the acquisition of developed commercial property were approved with proposed investment of $1.2 billion, accounting for 33 per cent of all annual programmes. This contributed to the decrease in individual approvals for developed commercial real estate (from 61 in 2005-06 to 46 in 2006-07), as several applicants chose to submit one proposal to encompass proposed acquisitions for the following twelve months rather than submitting numerous individual applications for individual acquisitions.

Also during 2006-07, nine annual programmes were approved to purchase land for commercial development involving proposed investment of $743.4 million, representing a significant increase from two proposals and proposed investment of $23.0 million in 2005-06.

Five annual programmes involving acquisitions of developed residential real estate were approved in 2006-07 with proposed investment of $128.0 million (six and $82.6 million in 2005-06). Annual programmes for developed residential real estate primarily involve foreign companies acquiring properties to house their employees.

The development expenditure associated with annual programmes in the 'for development' categories does not reflect the general policy requirement that at least 50 per cent of the acquisition cost is expected to be spent on development. A number of annual programmes involve acquisitions of undeveloped real estate which are not intended for development for various reasons, such as:

- the land will be acquired for the purpose of a 'buffer zone', for example surrounding an existing mine or quarry; or
- the land will be acquired for the purpose of tree plantation, for example as part of a 'carbon sinks' programme.

As with advance 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.

Table 2.8: Real estate sector approvals in 2006-07

	Number of approvals	Acquisition cost $b	Development expenditure $b	Proposed investment $b
Residential				
Developed(a)				
- existing residential property	2,986	2.21	-	2.21
- annual programmes	5	0.13	-	0.13
Sub-total 'Developed'	*2,991*	*2.34*	-	*2.34*
For development				
- vacant land	1,378	1.41	1.45	2.87
- off-the-plan				
individual	838	0.48	-	0.48
developer	238	5.81	-	5.81
Sub-total 'off-the-plan'	*1,076*	*6.28*	-	*6.29*
- redevelopment	59	0.12	0.24	0.37
- annual programmes	10	1.31	0.33	1.63
Sub-total 'For development'	*2,523*	*9.13*	*2.02*	*11.15*
Total residential	5,514	11.47	2.02	13.49
Commercial				
Developed				
- existing commercial property	46	3.35	-	3.35
- annual programmes	4	1.23	-	1.23
Sub-total 'Developed'	*50*	*4.58*	-	*4.58*
For development				
- vacant commercial property	39	0.37	2.21	2.58
- annual programmes	9	0.69	0.05	0.74
Sub-total 'For development'	*48*	*1.06*	*2.27*	*3.32*
Total commercial	98	5.63	2.27	7.90
Total residential & commercial	**5,612**	**17.10**	**4.29**	**21.39**

(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 real estate sector, according to location of investment. An examination of investment in the individual states and territories shows that New South Wales and Queensland were the main locations of proposed investment in real estate with 24 per cent and 21 per cent respectively of the total approved amount (compared with 27 per cent and 28 per cent in 2005-06). Western Australia and Victoria were also significant locations, accounting for approximately 11 per cent each (compared with 10 per cent and 14 per cent respectively in 2005-06).

Queensland recorded the largest number of approvals with 1,435 in 2006-07 (up from 1,183 in 2005-06), followed by Victoria with 1,253 (871 in 2005-06), Western Australia with 1,134 (1,374 in 2005-06) and New South Wales with 908 (786 in 2005-06). South Australia recorded the largest increase in the number of approvals with 686 in 2006-07, representing an 84 per cent increase on the 373 approved in 2005-06.

There was an increase in the value of the proposals approved that involved land acquisitions in more than one state or territory, from 13 per cent of the total value in 2005-06 to 27 per cent in 2006-07. This largely reflected the 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.

During 2006-07, less than 1 per cent of approvals in the real estate sector involved the acquisition of real estate located offshore,[10] compared with approximately 2 per cent of approvals in 2005-06. This sector reflects proposed foreign investment in Australian listed property trusts or funds, whose principal activities are to invest in foreign real estate.

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

Table 2.9: Real estate sector approvals in 2006-07 — location of investment

Location	Number of approvals	Residential		Commercial		Total
		Developed	For development	Developed	For development	
		$b	$b	$b	$b	$b
NSW	908	0.66	2.23	0.89	1.31	5.08
VIC	1,253	0.47	1.65	0.14	0.07	2.32
QLD	1,435	0.44	3.69	0.00	0.35	4.48
WA	1,134	0.50	1.06	0.03	0.80	2.39
SA	686	0.22	0.24	0.24	0.00	0.70
TAS	67	0.02	0.01	-	-	0.03
ACT	54	0.02	0.09	0.34	-	0.45
NT	23	0.01	0.06	-	-	0.07
Various(a)	50	0.01	2.12	2.82	0.79	5.75
Offshore	2	-	-	0.11	-	0.11
Total	**5,612**	**2.34**	**11.15**	**4.58**	**3.32**	**21.39**

(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.

Approvals by country of investor

Data on proposed investment associated with approvals in 2006-07 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 Singapore, Mexico, the United Kingdom (UK) and the Netherlands. Chapter 4 provides information on foreign investment stocks and flows by country.

Approved proposed investment from the US nearly doubled from $23.4 billion in 2005-06 to $45.3 billion in 2006-07. Proposed investment was primarily in the manufacturing sector, accounting for 40 per cent of total US investment. The US was the leading source of foreign investment in the finance and insurance, services and manufacturing sectors, accounting for 60 per cent, 54 per cent and 29 per cent in each sector respectively. Refer to Chapter 4 for further discussion on the Australia/US investment relationship.

Singapore recorded the second largest amount of proposed investment in 2006-07, with $18.0 billion (up from $3.2 billion in 2005-06). This proposed investment was primarily in the manufacturing sector, accounting for 75 per cent of total Singaporean investment.

Mexico emerged as a major source of foreign investment in 2006-07 with $16.8 billion of proposed investment. This was almost entirely attributed to a single proposal in the manufacturing industry.

Approved proposed investment from the UK nearly doubled from $7.1 billion in 2005-06 to $13.8 billion in 2006-07. The majority of UK proposed investment was in the services sector, accounting for 36 per cent of total proposed UK investment.

The Netherlands recorded the fifth largest amount of proposed investment in 2006-07, with $12.9 billion (up from $2.0 billion in 2005-06). This was largely attributed to a single proposal in the mineral exploration and development industry. This sector alone accounted for 83 per cent of total proposed investment from the Netherlands. Additionally, investment from the Netherlands was located primarily in Western Australia, accounting for 48 per cent of total proposed investment in that state.

Table 2.10: Approvals by country of investor in 2006-07 — location of investment

Country(a)	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Various(f)	Offshore	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
US	4,790	3,564	1,515	1,095	27	3	19	1	34,310	12	45,337
Singapore	1,927	61	131	40	10	20	109	2	15,632	69	18,001
Mexico	-	1	-	-	0	-	-	-	16,800	-	16,801
UK	848	463	956	1,121	140	9	90	2	8,004	2,125	13,759
Netherlands	944	6	49	10,610	259	28	-	66	850	69	12,881
Germany	945	106	321	635	325	1	236	-	4,306	69	6,943
Japan	240	69	759	509	1	12	-	-	2,720	-	4,310
Switzerland	467	9	157	2,125	10	-	0	0	1,266	110	4,143
Hong Kong	6	3	1,750	328	326	-	1	2	1,504	-	3,920
Russia	-	1	28	3,399	0	-	-	-	-	-	3,428
China(b)	258	957	155	561	99	150	6	30	424	-	2,640
NZ	44	56	181	16	125	0	-	-	1,965	-	2,388
Belgium	6	4	2	0	-	-	-	-	1,908	-	1,921
Canada	751	11	16	336	8	0	1	52	103	580	1,859
France	109	505	135	33	0	0	3	-	974	29	1,788
Malaysia	22	52	267	65	5	1	0	-	1,287	-	1,698
Brazil	1	0	1	0	-	-	-	-	835	-	838
Denmark	3	2	8	1	97	-	-	-	693	-	804
Sth Korea	162	26	460	30	18	2	0	-	19	-	716
South Africa	24	75	76	99	18	3	1	0	266	36	599
Other EU	231	33	36	37	5	4	3	3	291	-	643
Other ASEAN	10	33	14	26	4	1	1	0	0	-	89
Not allocated(c)	1,495	1,300	2,299	599	61	-	-	53	211	-	6,018
Other(d)	100	59	91	553	11	2	1	2	603	-	1,422
Sub-total	*13,384*	*7,396*	*9,406*	*22,216*	*1,552*	*236*	*471*	*214*	*94,971*	*3,099*	*152,944*
Australia(e)	238	145	707	104	0	1	2	-	2,246	-	3,443
Total	**13,621**	**7,541**	**10,113**	**22,320**	**1,552**	**237**	**473**	**214**	**97,217**	**3,099**	**156,387**

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 40.

Table 2.11: Approvals by country of investor in 2006-07 — industry sector

Country(a)	Number of approvals(g)	Agriculture, forestry & fishing $m	Finance & insurance $m	Manufacturing $m	Mineral exploration & development $m	Real estate $m	Resource processing $m	Services $m	Tourism $m	Total $m
US	282	-	3,363	18,020	4,789	3,285	-	15,687	193	45,337
Singapore	210	-	-	13,568	-	3,438	134	411	450	18,001
Mexico	3	-	-	16,800	-	1	-	-	-	16,801
UK	2,425	1	1,143	1,801	2,695	2,573	332	4,993	222	13,759
Netherlands	122	-	-	319	10,654	743	-	963	203	12,881
Germany	138	-	8	3,224	1,020	1,283	-	1,383	25	6,943
Japan	85	-	300	1,006	1,433	114	589	868	-	4,310
Switzerland	50	89	234	321	2,686	125	-	681	8	4,143
Hong Kong	33	-	150	2,903	693	15	-	159	-	3,920
Russia	20	-	-	-	3,302	29	97	-	-	3,428
China(b)	874	15	-	700	1,203	712	-	10	1	2,640
NZ	59	-	-	1,594	2	248	-	541	3	2,388
Belgium	20	-	-	-	-	13	1,908	-	-	1,921
Canada	113	-	-	-	1,243	126	-	490	-	1,859
France	86	0	209	898	3	128	120	294	136	1,788
Malaysia	223	-	100	695	12	590	-	73	229	1,698
Brazil	8	-	-	-	835	3	-	-	-	838
Denmark	19	-	-	96	-	15	-	693	-	804
Sth Korea	151	-	17	-	135	564	-	-	-	716
South Africa	379	-	90	40	104	245	-	120	-	599
Other EU	234	0	22	159	212	136	0	114	0	643
Other ASEAN	150	0	0	0	0	89	0	0	0	89
Not allocated(c)	248	-	-	-	23	5,807	-	188	0	6,018
Other(d)	421	0	0	0	108	766	480	28	39	1,422
Sub-total	*6,353*	*104*	*5,635*	*62,144*	*31,152*	*21,046*	*3,660*	*27,696*	*1,508*	*152,944*
Australia(e)	88	-	-	703	1,127	343	-	1,234	36	3,443
Total	**6,441**	**104**	**5,635**	**62,847**	**32,279**	**21,389**	**3,660**	**28,930**	**1,543**	**156,387**

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 40.

Notes applying to both Table 2.10 and 2.11:

(a) Includes overseas territories.

(b) China excludes Special Administrative Regions and Taiwan.

(c) 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.

(d) Comprises all other countries excluding Australia.

(e) 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.

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

(g) 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.