

Foreign currency

Housing affordability may be an issue for domestic buyers, but to cashed-up foreign property investors, the Australian market looks very attractive

Housing finance commitments fell a seasonally adjusted 5.6% in February from January – a 10-year low for monthly housing finance approvals. The drop reflects reluctance among borrowers to jump into the market in an environment of rising rates. While demand from Australian property buyers may have slowed, foreign investors are showing a keen interest in the property market.

Commercial and residential property firm Colliers International reports a 72% increase in investment from China during the 2009/10 financial year. According to the company's director of project marketing Brinton Keath, rising rates are seen as a sign of economic recovery among Chinese investors. "It probably doesn't help on the home front, but it's seen in a positive light overseas," he says.

Otto Dargan, director of Home Loan Experts, says his company is experiencing similar levels of enquiry from foreign investors. "We're receiving a steady stream of enquiries, particularly from mainland China," he says. "In the past, we found the majority of Chinese investors were from Hong Kong."



Otto Dargan

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In addition to servicing clients from China, Home Loan Experts caters for investors from Malaysia, the UAE, the US, the UK and Germany. The company decided to specialise in servicing foreign investors three years ago. “We have mortgage brokers and staff from many cultural backgrounds that speak different languages and that have relationships with complementary businesses overseas. It was a natural progression to capitalise on these strengths,” Dargan says.

The majority of Home Loan Experts’ clients come from foreign businesses that are in some way associated with investing in Australia. Those businesses in turn refer their clients to Home Loan Experts. Catering to Chinese investors has its unique challenges, Dargan says, in that there are several dialects and large cultural differences across the country. Having a broker who speaks Mandarin and Cantonese is helpful, but some investors speak another dialect.

Language differences aren’t the only barriers brokers face when dealing with overseas investors. While customers from Singapore, the UK and US are familiar with the service that

brokers provide, Dargan says he needs to spend more time explaining what Home Loan Experts does and building trust with mainland Chinese investors before they will do business with the organisation.

Due to the fact the loan process differs from country to country, Home Loan Experts also has to manage clients’ expectations of the transaction and the paperwork involved.

“Typically, we will do a more in-depth needs analysis focusing on their expectations and also how easily they can meet bank policy and identification requirements. For example, we did a loan recently for a customer in Siberia – providing ID was just the first challenge.”

Dargan adds that Australia’s mortgage application process can sometimes prove to be a hindrance. “I feel very sorry for people from the UK that are applying for a mortgage in Australia,” he concedes. “Our banks’ systems and procedures are a long way behind their UK counterparts. As a result, there is a large gap between our clients’ expectations and what we can deliver. In some parts of Europe, a loan is approved based on a meeting and a handshake, and again these



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customers have a hard time understanding why we need so many documents. However, customers from developing countries are amazed by how quickly we can get an approval.”

Home Loan Experts has the capacity to email the loan offer to customers, which speeds up the process. It is also accredited with a wide variety of Australian and foreign lenders, giving the brokerage access to a greater number of loan products. Despite these in-house advantages, Dargan reports that securing finance from lenders has become increasingly difficult.

“Recently, one major bank stopped lending to all foreign investors and many others do not have a specialised non-resident department, which means the credit assessors do not actually understand the application. You need to present the loan application very well to be able to get a quick approval. There are some foreign banks that allow Australian mortgage brokers to introduce loans, however only a few of them can take an Australian property as security.”

While Colliers International says foreign investors represent a new market for brokers, Dargan warns that it's tough to break into.

“Yes, there are several very large businesses with experienced mortgage brokers that service the non-resident market. Most of them are true professionals and do a fantastic job. Some banks also have a specialist non-resident sales team or overseas branches, however they tend to be staffed with inexperienced lenders,” he says.

“If it isn't something that you do every day then I wouldn't recommend that you service these clients. There is a higher risk of fraud and money laundering as well as the problems associated with identifying the customer. In addition to this, customers from third world or developing countries often do not have tax returns or have

documents in a foreign language. There are potential tax implications for investing in another country and even issues to do with transferring large sums of money to Australia. If you don't know what you are doing then it isn't worth the trouble involved.”

Despite the challenges that exist in servicing foreign investors, Home Loan Experts offers its services free of charge, however it will charge a fee if the loan is small or repaid in the first two years, and the business incurs a clawback from the bank. **MPA**

Foreign investment rules

The government once again tightened rules on foreign investment last year in light of concerns that purchases from temporary residents and overseas buyers were contributing to Australia's housing shortage.

Former assistant treasurer Nick Sherry announced the changes in April 2010.

“The government is acting to make sure that investment in Australian real estate by temporary residents and foreign non-residents is within the law, meets community expectations and doesn't place pressure on housing availability for Australians,” he said in a statement.

The changes reversed the government's earlier relaxation of rules during the GFC, which allowed temporary residents to purchase established dwellings as their principal place of residence without notification to the Foreign Investment Review Board (FIRB). As well, temporary residents were allowed to purchase new properties regardless of purpose.

The new restrictions, however, force all temporary residents purchasing existing property in Australia to apply through FIRB. As well, temporary residents are now subject to the same compulsory notification and screening processes as non-residents.

Along with the changes, the government ushered in tough new civil penalties for buyers who break the rules, as well as a new monitoring system.