

## **Has Chinese capital pushed up Australian house prices?**

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Australia is a migration country. Its' open economy, multi-cultural society, high-quality tertiary education, and liberal political system has attracted millions of migrants, including the Chinese. According to the Australian Bureau of Statistics, 30% of the 2020 Australian population was born overseas (Australian Bureau of Statistics, 2021). Like many other migrant countries, migrants in Australia congregate in metropolitan areas such as Sydney and Melbourne and form their ethnic communities in urban settlements. These migrant communities maintain close connections to their home countries and play a key role in bringing business, international students and capital into Australia. In recent years, wealthy Chinese citizens have started to acquire foreign assets, mostly in real estate purchases. As a result, there has been massive capital flight from China to other countries including Australia each year.

### **But where do foreign capital flows go?**

However, it is difficult to determine where exactly foreign capital flows and how it affects local housing prices, because of a lack of detailed data on households' residency status, foreign currency transactions, and overseas real estate purchases. To overcome these empirical challenges, we conducted a quasi-natural experiment in this study by examining the economic impacts of the Chinese macroprudential policy on the limitation on currency transactions (LCT) that came into effect on 1 July 2017. This policy imposed a cap of USD50,000 per annum on Chinese citizens' foreign currency conversion quota, which has significantly affected their ability to purchase real estate overseas.

Our conjecture is that this LCT policy would mostly affect the Chinese suburbs compared to non-Chinese suburbs in the overseas housing market. Home bias abroad theory suggests that cultural proximity is an important consideration for investors or immigrants when investing overseas or choosing their

neighbourhoods abroad. Similar cultural backgrounds and social networks can help bridge cultural and linguistic gaps and lower information asymmetry in overseas real estate purchases. As a result, Chinese capital is expected to flow to areas with a high percentage of Chinese residents in the local housing market, based on social network connections and other infrastructure in the neighbourhood such as Chinese shops, restaurants, real estate agents, legal/tax firms, favoured schools, and banks.

### **Evidence of impacts on Australian residential markets**

Using detailed CoreLogic property transaction data before and after 1 July 2017, we measured the LCT policy effect in a difference-in-differences (DID) estimation for the Greater Sydney area. We first split 678 Sydney suburbs into Chinese and non-Chinese suburbs based on the suburb's Chinese population in the 2016 Census, using multiple cutoff points (e.g., 5-15%). Table 1 shows the distribution of Chinese suburbs in the Greater Sydney area. We also applied a propensity score matching technique to make those Chinese and non-Chinese suburbs more comparable. Then, we compared the price changes between the two groups of suburbs before and after the policy shock.

<Insert Table 1 here>

Figure 1 shows the dynamic aspects of the LCT policy impact on the Sydney housing market. We find that the average treatment effect from the LCT policy was about a 3% reduction in house prices in Chinese suburbs, which was statistically significant. However, this policy had limited, or no, impact on house prices in non-Chinese suburbs. The results are consistent with alternative measures for Chinese suburbs, such as using the top 10 Chinese suburbs widely recognised by real estate agents and media, using a placebo for Chinese suburbs, and controlling for the confounding policy impacts during the study period. Therefore, our findings are in line with the home bias abroad, showing that Chinese capital mostly flows to overseas Chinese suburbs.

<Insert Figure 1 here>

## **What does all this mean?**

Our findings have some important policy implications. First, our research suggests that Chinese capital has had a limited effect on local housing prices in Australia, such as Sydney, and this effect is mostly confined to Chinese suburbs. There is little evidence to suggest that Chinese capital is widely spread across the housing market, at least during the sample period. Second, our findings are relevant to the policy dilemma regarding foreign investment and housing affordability. Foreign investment is crucial to keep the new housing supply, particularly new apartments in the Sydney housing market. Our research results suggest that the public narrative that foreign buyers pushed up local housing prices may be exaggerated. Third, this study provides insights on how to effectively mitigate the housing market risk from foreign investors such as foreign Chinese by building more new housing units in non-Chinese suburbs. This may improve housing affordability and diversify foreign investment risk in the Australian housing market.

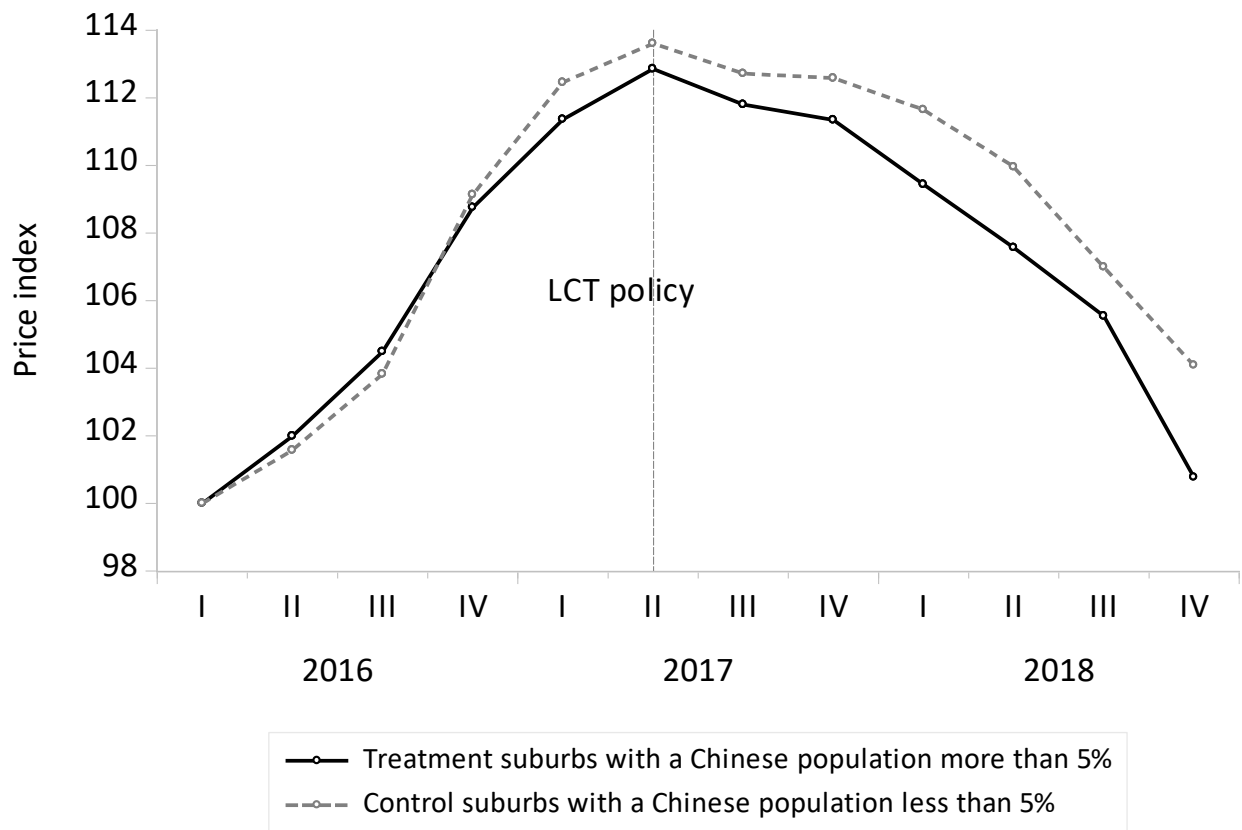
## **Acknowledgement**

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For a full article, please refer to:

Shi, S., Shi, X. (2023). The impact of Chinese regulation of limitation on currency transactions (LCT) on Sydney housing prices. *Housing Studies*, accepted and forthcoming.

Figure 1: The dynamic aspect of the LCT policy impact



This figure depicts the quarterly price indices for property sales between the control and treatment groups using a hedonic regression model, during the January 2016 and December 2018 period.

Table 1: Distributions of the Chinese suburbs in Sydney

Chinese population	Panel A: Full Sample		Panel B: PSM Matched Sample	
	Count	Percent	Count	Percent
[0, 0.05)	527	78.42%	496	87.02%
[0.05, 0.1)	80	11.90%	62	10.88%
[0.1, 0.15)	39	5.80%	9	1.58%
[0.15, 0.2)	12	1.79%	2	0.35%
[0.2, 0.25)	7	1.04%	1	0.18%
[0.25, 0.3)	3	0.45%		
[0.3, 0.35)	2	0.30%		
[0.35, 0.4)	2	0.30%		
Total	672	100.00%	570	100.00%
Mean		3.59%		2.39%
Median		1.57%		1.32%

This table represents the distribution of Chinese suburbs in Sydney. Panel A presents the results based on all suburbs. Panel B presents the results based on the propensity score matching (PSM) matched suburbs. The Chinese population in a suburb is calculated as the percentage of people from Mainland China (excluding Hong Kong and Taiwan) over the total number of people in the suburb. [0, 0.05) represents a Chinese population equal to or more than zero but less than 5% in a suburb.