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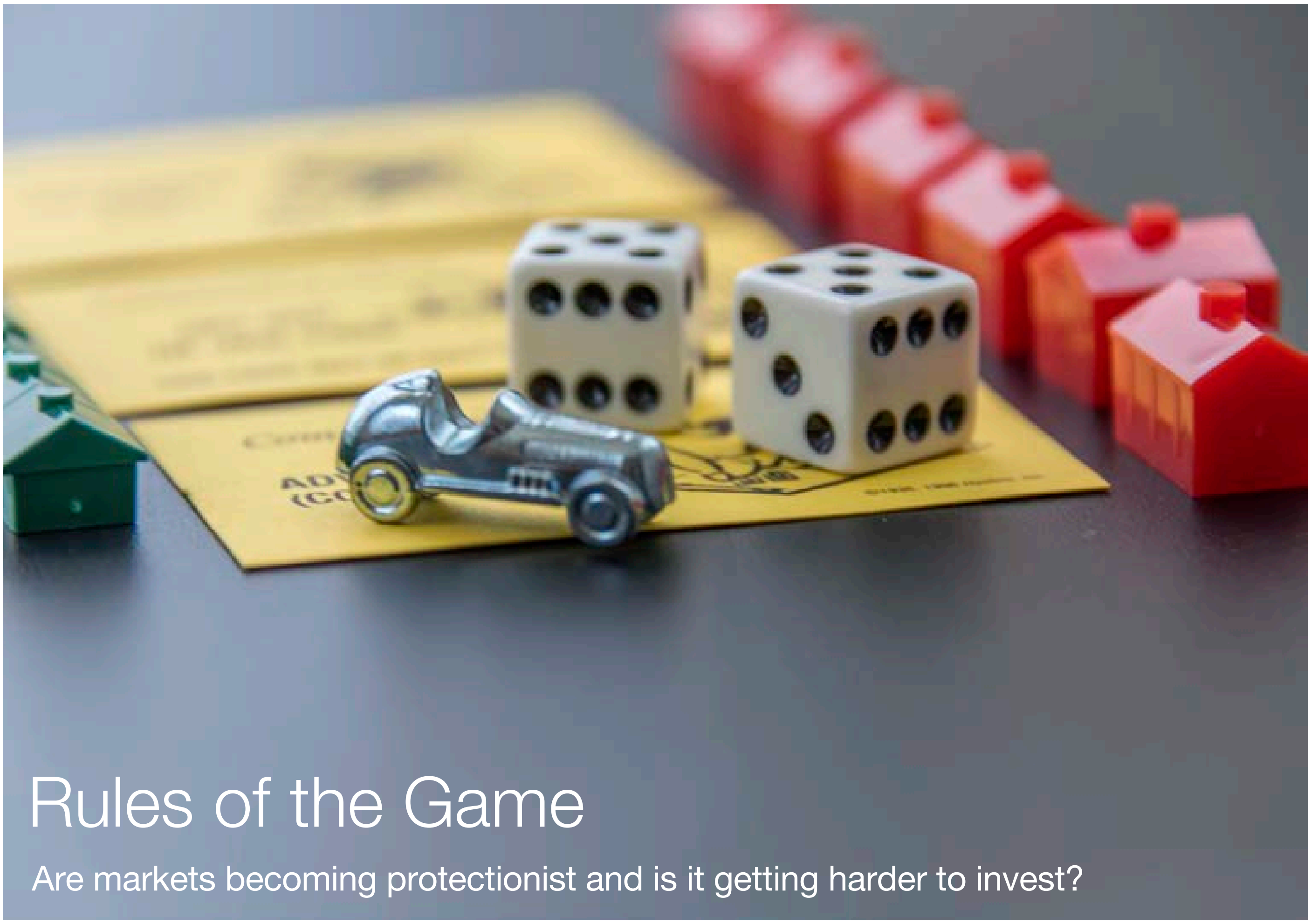

Rules of the Game

Are markets becoming protectionist and is it getting harder to invest?

Property purchases and cross-border transactions come with a host of rules, regulations, caveats and restrictions that buyers must be cautious of, or at the very least aware of. Politics is a fluid arena, and what is legal and fair one month is prohibited the next. Taxes spring up over night and pro-investment legislators are voted in and out at the drop of a hat.

To most of us, protectionist policies are designed to safeguard markets from so-called foreign invaders. American tech behemoths have been wailing — loudly — for years about China's protectionist trade policies that prevent them from doing business in the PRC. Earlier this year, a research paper revealed Ottawa's protectionist tariffs are largely to blame for the price differential between NAFTA partners US and Canada. Canadians would argue their higher food safety standards are worth the price, but others would suggest leaving it to the marketplace. South Africa charges tourists four times the resident fees to get into Kruger National Park. The list goes on.

Protectionism has also been linked with certain sectors that policymakers argue are of national interest. There are restrictions and/or prohibitions on foreign investment in agriculture in China and Russia, culture and media in Australia, Canada, France, the UK and, ironically, the US, public health in France and water supply in China and France as just a few examples.

But recently there's been what critics call a boom in protectionist property investment policies across the globe. One of the most prominent was this past spring's implementation of a capital gains tax for overseas owners in the UK. UK property is one of the most open, transparent and secure locations for investment in the world, and there were fears a CGT would kill the market. That's proven to be hysteria.

Benham and Reeves Director Marc von Grundherr sees the tax as more of an equaliser, where all owners are paying the same taxes on property. Full stop. "No one can understand how it's gone on for as long as it has. It was coming. I can't imagine any other country in the world where residents pay a tax and foreign owners don't. Can you imagine, here, if I didn't pay any taxes and Hong Kong people did? There'd be an outcry. It's only a regularising [tax]."

Nicholas Holt, head of research for Asia-

Pacific at Knight Frank, agrees. “The general trend — general — is more equalisation,” he says, adding that property markets around the world are becoming more and more policy driven. “To a certain extent, yes. It’s all about the increasing interventions and real estate is part of that. It’s very sensitive isn’t it?” but Holt is quick to point out that many markets are already protected (Thailand, Indonesia, India) and are likely to stay that way for the foreseeable future. The question now is one of how many are joining them?

"Governments in popular investment markets are becoming more aware of the negative effects of hot money,” begins Hong Kong-based property writer Christopher Dillon, author of the *Landed* series. “Whether it's Silicon Valley entrepreneurs displacing long-term residents of San Francisco's Mission District, young professionals who can't afford a home in Vancouver or London neighbourhoods that can't sustain corner shops, there's a social cost attached to higher property prices,” he says.

Australia is a hot investor location and it’s one that’s tightening its grip. According to the NAB, Chinese investors are not being scared off Oz, stating in May that, “As China’s slowdown in growth continues, there has been a significant shift in direct investment from Chinese investors into Australia, away from traditional targets such as mining, to alternative sectors, such as commercial real estate.” Also in May the government announced that investors buying illegally now face up to three years in prison. That also applies to solicitors and property agent that facilitate illegal transactions. Other new rules include an AU$5,000 fee for investment on residential properties valued under AU$1 million, which still excludes existing properties. There are fears that rule has been bent in the last few years, prompting the change.

Elsewhere, Vancouver legislators are facing pressure from residents over the city’s increasing lack of affordability. As a result, mayor Gregor Robertson, among others, floated the idea of a speculation tax as a disincentive to be implemented as soon as possible. It could be argued they’re following the SAR’s lead in that some of Hong Kong’s recent property policies (stamp duties for non-permanent residents and corporate owners) were designed to do just that. In May, the UK escaped new taxes and rules that could have been made official had the Tories not won the election.

But by the same token, there are plenty of markets that are actively trying to make things easier on international buyers. Many countries in Europe have boosted their Golden Visa property programmes (Greece, Spain, Portugal) to stimulate investment, most of which started with the Eurozone quagmire a few years back. In Asia, Vietnam has loosened its regulations (effective in July) so that investors need not be married to Vietnamese nationals. Valid visa holders and corporations operating in the country can purchase houses or flats, though still only 30 percent of a given development. The property can also be sublet, inherited or collateralised. Japan is actively opening its markets, and even India is rumoured to be considering amending its investment laws.

Still, it is the tightening restrictions that get the most attention, but like Holt and von Grundherr, Dillon doesn't see the new regulations as protectionist in the classic sense arguing there's more to it than simple affordability and availability. "The regulations aren't protectionist or a backlash against foreign buyers — though foreigners are a tempting, visible target who usually can't vote — but against the discontent that fuels things like the Occupy Central movement," he theorises. "Governments walk a fine line between alienating their citizens and scaring away buyers and the taxes they pay and jobs they create."