

**ALFRED NOBEL UNIVERSITY
DEPARTMENT OF THE GLOBAL ECONOMICS**

Bachelor's Thesis

“Development and ways of realization of the international investment project
“Real Estate Agency” in Australia”

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Group: IER16-English

Specialty: 292 “International economic relations”

Supervisor: Shkura I.S., Candidate of economic sciences

Dnipro, 2020

ALFRED NOBEL UNIVERSITY
DEPARTMENT OF THE GLOBAL ECONOMICS

First (bachelor) level
Specialty 292 International economic relations

Approved by:
Head of Department _____

(signature, last name, initials, scientific degree, academic status)
“ ____ ” _____ 20__ p.

**The Bachelor's Thesis
Assignment**

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1. Title “Development and ways of realization of the international investment project “Real Estate Agency” in Australia”
2. Supervisor Shkura I.S., Candidate of economic sciences

Approved with the Order of " ____ " _____ 20__, No. _____

3. Deadline for submission of _____

4. Aim of the paper: to analyze the macroeconomic situation in Australia and to estimate its attractiveness for investors in housing industry, and to develop an investment project for creating a real estate agency in Australia.

5. Thesis outline (list of issues to be developed):

SECTION 1. ECONOMY OF AUSTRALIA: THE CURRENT SITUATION, DEVELOPMENT TRENDS AND MAJOR PROBLEMS

- 1.1. General trends in the economy of Australia over the last 15 years
- 1.2. Structural changes in the economy of Australia
- 1.3. The Australian real estate market and its participation in the world trade in real estate services

SECTION 2. FOREIGN ECONOMIC ACTIVITY OF AUSTRALIA: INTERNATIONAL TRADE AND CAPITAL MOVEMENT

- 2.1. Analysis of export and import in Australia
- 2.2. Evaluation of foreign direct investment of Australia
- 2.3. Assessment of investment climate in Australia and its attractiveness to Ukrainian investors

SECTION 3. DEVELOPMENT OF AN INTERNATIONAL INVESTMENT PROJECT IN REAL ESTATE

- 3.1. Research of the demand for rental of foreign real estate in Australia
- 3.2. Substantiation of the investment project for the creation of real estate agency in Australia, the assessment of the need for investment resources and identification of sources of their involvement
- 3.3. Calculation of estimated cash flows and economic effectiveness of the investment project in real estate

6. Date of issue of the assignment _____

7. Thesis schedule

no	Stages	The deadline for submission	
		Schedule date	Actual date
1	Chapter 1		
2	Chapter 2		
3	Chapter 3		
4	The whole paper		

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Kyselgof Y.V. "Development and ways of realization of the international investment project "Real Estate Agency" in Australia"

The paper examines the main trends and problems of Australian economy. The features and structure of the economy of Australia are researched. The Australian real estate market and its participation in the world trade in real estate services are studied. The part of the thesis is devoted to the consideration of the foreign trade activity of Australia and the assessment of foreign direct investment of Australia. The investment climate in Australia was showed as attractive for Ukrainian investors. The paper deals with the development of an international investment project in real estate. For substantiation of the investment project the demand for rental of foreign real estate in Australia was carefully researched. The description of the investment project for the creation of real estate agency in Australia is presented. The need for investment resources and sources of their involvement are identified. The estimated cash flows and economic effectiveness of the investment project in real estate is calculated.

Keywords: real estate, housing market, investment climate of Australia, NPV, payback period of the investment project

Кисельгоф Є.В. «Розробка та шляхи реалізації міжнародного інвестиційного проекту «Агентство нерухомості» в Австралії»

У роботі розглядаються основні тенденції та проблеми австралійської економіки. Досліджено особливості та структуру економіки Австралії. Вивчається ринок нерухомості Австралії та його участь у світовій торгівлі послугами нерухомості. Частина роботи присвячена розгляду зовнішньоторговельної діяльності Австралії та оцінці прямих іноземних інвестицій Австралії. Інвестиційний клімат в Австралії визначено привабливим для українських інвесторів. У роботі розроблено міжнародний інвестиційний проект у сфері здачі в оренду нерухомості. Для обґрунтування інвестиційного проекту досліджувався попит на оренду іноземної нерухомості в Австралії. Представлено опис інвестиційного проекту зі створення агентства нерухомості в Австралії. Виявлено потребу в інвестиційних ресурсах та джерелах їх залучення. Розраховано грошові потоки та економічну ефективність інвестиційного проекту в сфері здачі в оренду нерухомості.

Ключові слова: нерухомість, ринок житла, інвестиційний клімат Австралії, NPV, період окупності інвестиційного проекту

INTRODUCTION

The Australia's economic development and its position in the global economy and trade proves that Australian market is favourable for foreign investment. The income level of the population is high, business taxation is too loyal. The slowdown in economic growth of Australia is not so significant. It is compensated by a sustainable economy, a stable national currency, transparent and fair legislation. Despite the reduction in the residential housing market in Australia, we should expect its stabilization due to the stability of solvent demand of the population. All these facts confirm that the investment project for organization a real estate agency that will specialize in the residential housing market in Australia is promising in the future.

The aim of the thesis is to analyze the macroeconomic situation in Australia and to estimate its attractiveness for investors in housing industry, and to develop an investment project for creating a real estate agency in Australia.

The assignments of the thesis are:

- to study the general trends in the economy of Australia;
- to research structural changes in the economy of Australia;
- to consider the Australian real estate market and its participation in the world trade in real estate services;
- to analyse an export and an import in Australia;
- to evaluate foreign direct investment of Australia;
- to assess investment climate in Australia and its attractiveness to Ukrainian investors;
- to research of the demand for rental of foreign real estate in Australia;
- to substantiate the investment project for the creation of real estate agency in Australia, the assessment of the need for investment resources and identification of sources of their involvement;
- to calculate estimated cash flows and economic effectiveness of the investment project in real estate.

The object of study is the international relations and investment climate in Australia for Ukrainian investors.

The subject of study is the development of international project in housing industry in Australia.

Research methods. The preparation of the thesis needed the general scientific methods of cognition, analysis and synthesis, a process approach, methods of systemic, strategic, economic and statistical analysis.

The practical significance of the work consists of possibility of development of directions for the improvement of the foreign economic activity and investment position of Australia and realise an investment project in housing market of Australia.

The first section of the thesis contains the results of the research of the general trends in the economy of Australia and the main industries. The Australian real estate market and its participation in the world trade in real estate services are considered.

The second section describes the main trends of export and an import of goods and services in Australia. The evaluation of foreign direct investment and the international investment position of Australia are presented. The assessment of the investment climate in Australia was obtained.

The third section provides the research of the demand for rental of foreign real estate in Australia. There are investment project for the real estate agency in Australia, the assessment of the need for investment resources for its start. The calculation of estimated cash flows and economic effectiveness of the investment project in real estate are presented.

SECTION 1

ECONOMY OF AUSTRALIA: THE CURRENT SITUATION, DEVELOPMENT TRENDS AND MAJOR PROBLEMS

1.1. General trends in the economy of Australia over the last 15 years

Despite the fact that Australia is located at a considerable distance from other world countries, the Australian economy is highly integrated in world economic processes, in particular in foreign trade. Australia is one of the world's main exporters in many product categories, including the export of coal, iron and liquefied natural gas (LNG). Australia's first bilateral trade agreement was an agreement about the free trade area with New Zealand, providing for the creation of one market between the two countries. In addition, the Australia has concluded agreements on free trade and economic cooperation with Asia-Pacific countries (China, Japan, the Republic of Korea, and others), the US and Chile. An agreement with the countries of the Gulf Cooperation Council (Bahrain, Qatar, Kuwait, the United Arab Emirates, Oman and Saudi Arabia) is under development.

According to the IMF, Australia's GDP is 0.95% of the world at purchasing power parity. The country is one of the top 20 world economies by GDP at PPPs (46.6 thousand USD per person). According to the report of the Swiss bank Credit Suisse about world wealth, Australia ranks the 4th in the world by average wealth per person and the second (after Switzerland) by median. In addition, Australia takes the 6th place among the ten countries with the highest level of globalization index calculated by the KOF Swiss Economic Institute.

The dynamics of key macroeconomic indicators of Australia indicates a slowdown in economic growth as a result of globalization economic and geopolitical processes.

Australia's economy has been growing steadily over the past 30 years. According to the IMF, in 2000-2019, the country's gross output increased by more than 70%. The average annual growth rate of real GDP in Australia in 2000-2019 was 2.9% (table 1.1).

In 2000-2008, the country's gross output growth rate exceeded the average value for the OECD countries.

Despite the global financial and economic crisis, the country's economy grew in 2008-2009. GDP growth rates decreased only in 2009 to 1.9%. The reason for the slowdown in Australia's GDP growth during the "great recession" is the reduction in demand for raw materials from China, which is a key importer of Australian goods. This led to a sharp devaluation of the Australian dollar. The national currency for September – December 2008 depreciated by more than a quarter. To maintain financial stability, it was decided that the Government:

- will compensate deposits in case of bankruptcy of a bank, credit union or construction company;
- will guarantee short-term debt when banks receive large loans from abroad.

Measures to stabilize the financial and credit system, support production and guarantee employment helped to return to pre-crisis growth rates of the economy.

In 2012, Australia's economic growth rate reached 3.9%, after which it decreased next year to 2.1%. The sharp decline in growth was due to the deterioration of foreign trade conditions, as well as the related depreciation of the Australian dollar. A negative factor was a decrease in mining output.

In 2014-2018, Australia's gross output increased by an average of 2.6% annually.

Australia's GDP growth rate in 2019 decreased to 1.7%. This is a historic low since 1992. The main reason was the contraction of domestic demand. Inflation fell to 1.6% in 2019, which led to a reduction in the key rate in the second half of 2019 to a historic low (0.75%). In addition, according to the RBA, the Government should stimulate investment, since the rate of FDI stock in 2019 decreased to 22.5% of GDP. An additional factor that negatively affected the country's economy in 2019 was the trade standoff between the US and China. On the other hand, rising commodity prices on world markets positively impacted economic growth in 2019.

Despite the slowdown in economic growth in 2019, for the first time since 2007, Australia had a state budget surplus (0.2% of GDP), which was caused by an increase in tax revenues (Table 1.1). The unemployment rate in 2019 reached 5.1%. This is the

minimum value of the indicator since 2009. An important factor in Australia's economic growth is high labor productivity (especially in the industrial sector).

Table 1.1

The main macroeconomic indicators of Australia, 2000-2019

	2000	2005	2007	2008	2009	2014	2015	2016	2017	2018	2019
GDP (Constant Prices, Annual % Change)	3,0	2,9	4,4	2,7	1,9	2,6	2,5	2,8	2,4	2,7	1,7
GDP, trillion USD	0,4	0,7	0,9	1,1	1,0	1,5	1,2	1,3	1,4	1,4	1,4
GDP per Capita at PPP, thousand USD (2011)	36,5	40,5	42,0	42,2	42,2	44,7	45,2	45,6	46,0	46,5	46,6
Accumulation rate,% of GDP	25,0	27,9	28,3	28,4	27,0	26,4	25,9	24,7	24,2	24,2	22,5
Average annual inflation rate, %	4,5	2,7	2,4	4,3	1,8	2,5	1,5	1,3	2,0	2,0	1,6
Import (goods and services), growth rate, %	8,0	9,5	13,1	10,6	-8,1	-1,4	2,0	0,1	7,7	4,0	-1,2
Export (goods and services), growth rate, %	11,6	3,4	3,4	4,4	2,0	6,9	6,5	6,8	3,4	5,0	3,1
Unemployment rate, %	6,3	5,0	4,4	4,3	5,6	6,1	6,1	5,7	5,6	5,3	5,1
Population, million	19,1	20,3	21,0	21,5	21,9	23,6	24,0	24,4	24,8	25,2	25,6
General Government Balance (in % of GDP)	1,9	1,6	1,3	-1,1	-4,5	-2,1	-1,9	-1,6	-0,8	0,0	0,2
General Government Gross Debt (in % of GDP)	19,6	10,9	9,7	11,8	16,7	34,0	37,7	40,5	41,1	41,4	41,8
Current account operations,% of GDP	-4,1	-5,9	-6,7	-4,7	-4,7	-3,1	-4,6	-3,3	-2,6	-2,1	-0,3

Source: IMF

Australia is the only OECD country which economy did not fall into recession during the global financial crisis. The country's economic growth rate is one of the highest in the world. Australia is the 13th largest economy in the world. A stable and highly developed economy is the result of effective corporate sector and high government spending. At the same time, households and the consumer sector face with low income growth and high spending, as consumer spending accounts for almost 60% of the economy. The drivers of the country's economic security are the scale of agricultural exports and financial sector services.

Inflation is projected to increase from 1.6% in 2019 to 1.8% in 2020 and 2.0% in 2021. The current government balance has a deficit (-0.4% of GDP), but it is expected to decline by 2021. The increase in commodity prices has constrained the increase in the deficit and public debt. According to the IMF, Australia's government debt in 2019 was 41.8%, the forecast is 42.3% in 2020 and 41.3% in 2021. A decrease in private household consumption is expected. It is planned to finance the development of infrastructure at the expense of the state budget. The government raises the level of tax breaks and social transfers, provides a socially flexible fiscal and monetary policy. The priority of government is to attract investment and increase corporate profit due to loyal taxation and increased demand for infrastructure and services in the country. The export of services, in particular tourism and education, will develop due to increased demand from the countries of the Asia-Pacific region. The Australian Government maintains the country's competitiveness among Asian competitors in international trade. To stimulate the economy, Australia is developing economic integration with the Asia-Pacific region. The country has entered into trade agreements with China and Europe, and also respects preferential relations with the United States. Australia's economy depends on China's policies, especially after the signing of a free trade agreement between the two countries.

The unemployment rate, according to IMF estimates, will not grow in 2020 and 2021 and will remain at about 5.1% in 2019. According to the ABS, 725,000 Australians are currently unemployed in the country. At the same time, the level of underemployment, defined as the number of people who want to work more, is increasing. Australia now has 1.1 million part-time jobs, affecting wage growth. Australia's problems in the future will be aging populations, climate change, in particular the loss of 20% of the coral of the Great Coral Reef's coral due to the destroyable situation of discoloration and the increasing frequency and duration of droughts, resulting in a shortage of water in the agricultural sector. The country is one of the largest polluters in the world. Faced with international pressure, Australia is required to develop its nuclear energy sector to reduce greenhouse gas emissions.

Despite the fact that in 2019 Australia's economic growth reached a minimum due to the slowdown in the global economy and trade disputes between the US and China, the estimates of further growth are generally favorable.

For 2020 and 2021, the IMF predicts GDP growth of 2.3% and 2.6%, since it is projected that household consumption will recover after the country's labor market strengthens. In 2021-2022, Australia's economic growth will accelerate to + 2.6% and + 2.7%, respectively.

The OECD also predicts Australia's GDP growth of 2.3% in 2020. Positive factors influencing economic growth include a reduction in the tax burden on households through the introduction of tax benefits, and easing monetary policy. Constraining factors of economic development are a slowdown in the growth of the economy of the main Australian trading partners and a reduction in investment in the housing sector.

The RBA expects the country's GDP growth by 2.7-2.8% in 2020 and by 3.0% in 2021. The stimulating factors are the reduction in tax rates, as well as the key rate of the RBA, and increased investment in infrastructure. The main risks for the Australian economy, according to the RBA, are declining investment in housing and a slowdown in consumer activity.

1.2. Structural changes in the economy of Australia

Industry structure of Australia's industry value added is quite diversified. In Australia's economy, imports prevail over exports. Industrialization began relatively recently, as evidenced by the small output of the manufacturing sector. The industry sector has a high level of productivity, 75% of industry ratings are above the world average. The industrial sector provides jobs for 19.3% of the workforce, and 24.1% of the country's GDP. Employment in the manufacturing industry includes the food industry (about 40% of the workforce), machinery and equipment (about 20%), the metalworking and metalworking industry (about 20%), and the chemical and petrochemical industries (over 10%).

Agriculture provides 2.5% of employment and 2.5% of Australia's GDP (Table 1.2). The agricultural and mining sectors are Australia's main export. The country is a global exporter of wool, meat, wheat and cotton. Minerals, energy raw materials provide high export earnings. The country has significant global uranium reserves (40% of the world's confirmed reserves are located in Australia). Australia is one of the largest producers of iron ore, gold and uranium. The country strives to become the world's largest LNG exporter. In fact, only iron ore exports account for 24% of the country's total annual exports.

Table 1.2

The sectoral structure of economy of Australia in 2019

Breakdown of Economic Activity By Sector	Agriculture	Industry	Services
Employment By Sector (<i>in % of Total Employment</i>)	2.5	18.9	78.3
Value Added (<i>in % of GDP</i>)	2.5	23.0	67.0
Value Added (<i>Annual % Change</i>)	16.3	-1.6	3.1

Source: World Bank

The service sector dominates the Australian economy and provides 67% of GDP and 78.1% of jobs in 2019. The highest was the growth of business services and financial services, which ranks the 6th in the world in terms of assets of managed funds. Health and social assistance have also made significant contributions to economic growth. Educational and business tourism have also increased. All these facts prove the economic stability and investment attractiveness of Australia

In the Australian highly developed economy the role of services is constantly growing. Since 1975, the sectoral structure of Australia's GDP has changed significantly, the share of the services sector in the country's economy increased by 9.6 percentage points in 1975-2019. The highest growth among other types of economic activity was shown by the information and telecommunications sector. Its value added increased by 11.7 times in 1975-2019 (Table 1.3). Financial and insurance activities are actively developed. In 2019, these sectors dominated the sectoral structure of GDP. The mining industry was at the 2nd place by its share in value added.

Table 1.3

The sectoral structure and growth of value added in Australia by main types of economic activity, %, 1975-2019

	1975	1990	2000	2009	2019	Growth 1990- 2000	Growth 2000- 2009	Growth 2009- 2019
Total	-	-	-	-	-	38.4	33.3	29.8
Agriculture, forestry, livestock and fishing	4.0	3.4	3.5	3.2	2.3	44.9	21.6	-6.7
Mining industry	5.4	6.2	6.5	6.5	9.1	46.5	32.6	82.2
Manufacturing	15.5	12.2	10.2	8.4	6.0	15.4	9.3	-7.2
Electricity, gas and steam supply, water supply	3.6	4.3	3.7	3.2	2.6	21.3	12.8	8.4
Construction	7.8	7.3	7.2	8.6	7.8	36.5	60.4	17.1
Wholesale trade	5.1	4.1	4.2	4.1	4.1	43.0	28.4	29.6
Retail trade	4.5	4.0	4.1	4.5	4.4	43.3	47.9	27.0
Activities of hotels and catering establishments	3.1	2.8	2.9	2.7	2.4	44.6	20.6	18.8
Transportation, storage and postal services	4.3	4.7	4.9	5.2	4.9	42.5	42.6	21.2
Information and communications activities	0.9	1.4	2.1	2.3	2.6	109.6	45.1	44.2
Financial and insurance activities	4.9	6.7	8.0	9.0	9.3	65.4	51.1	34.3
Real estate activities	2.6	3.2	3.3	2.8	3.2	44.5	13.5	44.6
Professional, scientific and technical activities	3.8	4.6	5.6	6.2	7.4	66.5	48.2	56.0
Administrative services	2.5	3.0	3.7	3.6	3.7	71.1	32.1	31.1
Public administration	7.3	6.5	6.2	5.9	5.6	32.3	27.8	21.6
Education	5.7	6.5	6.0	5.5	5.1	27.4	21.0	20.9
Health and social services activities	4.6	5.2	5.4	6.3	7.8	43.9	54.4	60.3
Recreational services	0.8	0.8	0.8	0.9	0.9	35.1	49.1	27.0
Other services	2.7	2.4	2.3	2.1	1.9	31.2	21.8	20.6
Ownership of property	9.6	10.6	10.5	9.8	8.9	37.2	25.2	17.3

Source: Australian Bureau of Statistics

The agricultural industry in 2019 accounted for 2.3% of value added. In 2009-2019, the share of the value added of the primary sector in economy was reduced. Growth in agriculture, forestry, livestock and fishing became negative and amounted to -6.7%. The share of this type of economic activity in value added also decreased (4.0% in 1975, 3.5% in 2000 and 3.2% in 2009). Despite this trend, the sector continues to

play a significant role in the Australian economy, especially the foreign trade, as livestock products are one of the main export commodities.

The share of the industrial sector also fell slightly from 16.7% of value added in 2000 to 15.1% in 2019. At the same time, there was a shift in the structure of industry towards the predominance of the mining sector in value added. By 2019, the share of manufacturing decreased to 6.0% after 10.2% of value added in 2000. The growth of the services sector and the mining industry (+ 563.1% in 1975-2019 versus +51.5% in the manufacturing sector), the share increased from 6.5% to 9.1%. A decrease in the share of manufacturing in the sectoral structure of GDP is a traditional factor in the transition to an economy based on the services sector. The growth in the extractive industry is due to increased natural gas production with a view to further Australia exporting LNG.

The Australian economy has a highly developed services sector, its share in the country's total value added is 73.7%. In the tertiary sector of the economy, as well as in the sectoral structure as a whole, financial and insurance activities dominate. Their share is 9.3% of value added. In the services sector, the construction, healthcare, and social support sectors play an important role, accounting for 7.8% of GDP. The smallest share in the tertiary sector is occupied by recreation and recreation, its share in 2019 amounted to only 0.9% of value added.

The Australian economy is highly diversified, which contributes to the stability of the country's economy to external and internal shocks.

The regional structure of Australia's GDP is not as balanced as the sectoral. The country is characterized by high differentiation in the level of development of regions and their contribution to the country's GDP. More than 2/3 of GDP growth in 2000-2016 was provided by only 6 metropolises. According to statistics, in 2019, the largest contribution to GDP (75.2%) was made by the states of New South Wales (32.6% of GDP), Queensland (23.7% of GDP) and Victoria (18.9% of GDP (Fig. 1.1). According to the OECD report, in 2000-2016, the gap between Australia's most and least affluent regions widened, and more than 2/3 of GDP growth during this period accounted for only 6 metropolises (cities with populations over 500 thousand people). This situation is

caused by natural geographic conditions, in particular the fact that most of the Australian territory is occupied by desert areas unsuitable for agriculture.

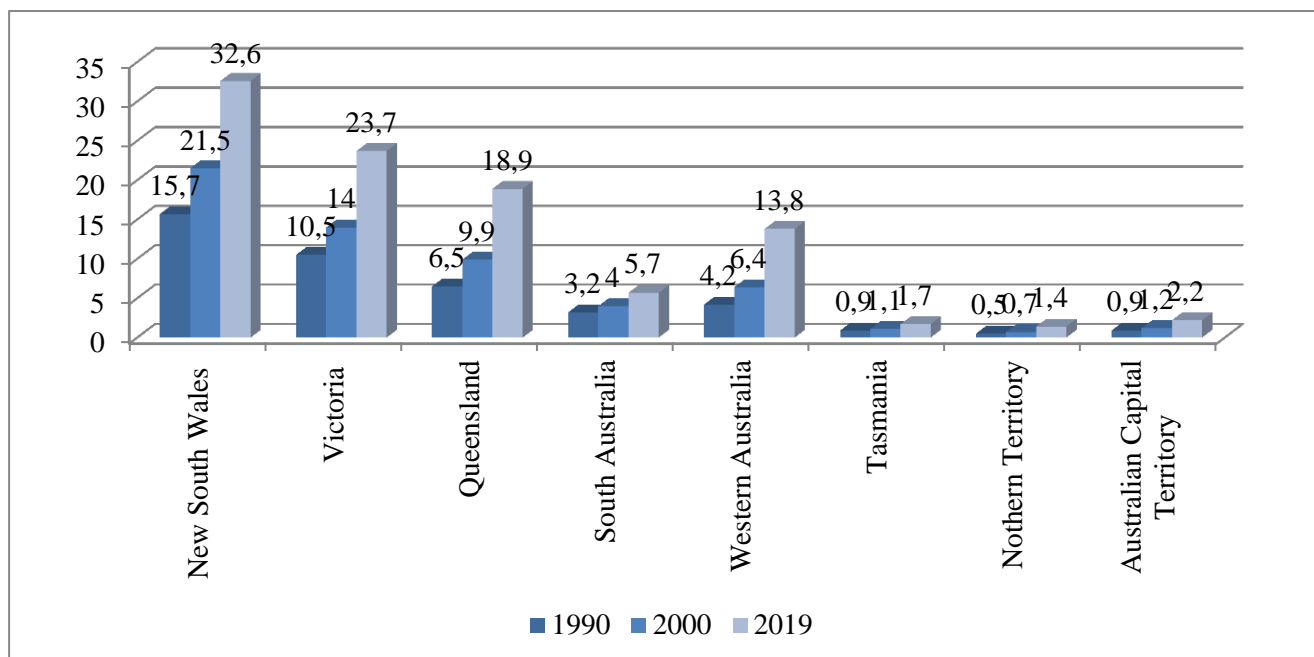


Fig. 1.1. Regional structure of Australia's GDP, % of GDP, 1990-2019

Source: Australian Bureau of Statistics

The Australian economy is highly dependent on natural disasters, in particular droughts and forest fires. From October 2019 till now, massive fires continue in the country, covering already more than 10 million hectares of forest, mainly in the territories of New South Wales and Victoria. The forest fires negatively affect the agricultural and tourism sectors of the economy and the likely economic loss this year may exceed \$ 4.4 billion - such record damage was caused by fires in 2009.

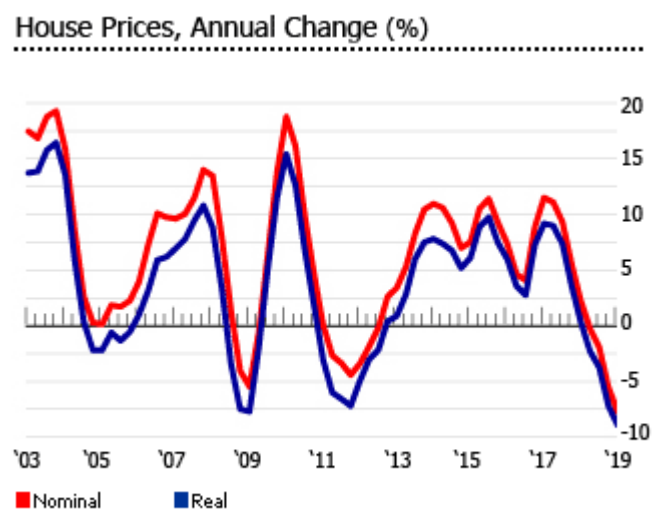
For a more balanced socio-economic development of territories in 2017, the Australian Government adopted the concept of regional development of the country "2030 Regions: Opening Opportunities". In addition to the existing measures to support regions, including a grant system and creating employment for the indigenous population, tax incentives for small businesses, assistance in creating jobs and professional retraining programs, and assistance in obtaining loans for agricultural needs are highlighted among new state programs.

1.3. The Australian real estate market and its participation in the world trade in real estate services

After a significant increase in residential property prices over the last six years, the housing market in Australia has fallen. It is a result of the Government measures to tighten credit policy and increase taxes on foreign investment in the residential real estate market.

According to the Australian Bureau of Statistics, housing prices in major Australian cities decreased by 7.7% during the year to the 1st quarter of 2019 (-8.92% adjusted for inflation). The previous year was an increase of 2.2%. Market prices have been declining for the fourth quarter, and year on year this is the historical minimum for the period from the first quarter of 2002 till now.

In the first quarter of 2019, housing prices decreased by 3.07%, taking into account inflation. In some cities, the situation in the housing market was even more unstable. In Sydney, prices have fallen mostly. The house price index decreased by 11% (-12.2% adjusted for inflation) during the year to the 1st quarter of 2019. In Melbourne, the fall in prices was -10.5%. Less significant was the decline in prices in Darwin (-2.6%), Perth (-2.5%), Brisbane (-0.9%) and Canberra (-0.5%). Real estate prices have been rising in Hobart (3.8%) and Adelaide (0.6%) during the year to the 1st quarter of 2019 (Fig. 1.2).



Source: Australian Bureau of Statistics, Global Property Guide estimates

Fig.1.2. House prices, annual change (%)

Source: Australian Bureau of Statistics

The average price of houses in Australia in the first quarter of 2019 was 636900 AUD (433700 USD), which is 7.4% less compared to the 1st quarter of 2018.

The most expensive real estate is in New South Wales, especially in Sydney. The average house price in this city was 806800 AUD (549386 USD) in the first quarter of 2019, which is 25% higher than the average house price in the country. The cheapest houses are in Tasmania, the average price is 412700 AUD (281026 USD) in Q1 2019.

Today, supply and demand in the housing market are declining. The purchase of housing in the primary market in houses under construction decreased by 28.3% in the 2nd quarter of 2019 compared to a year earlier, and the purchase of housing in houses commissioned fell by 13.9%.

In the secondary market, purchase of houses decreased by 13.9% in the 2nd quarter of 2019 compared to a year earlier. The reduction in value of purchase was 16.3%.

According to statistics, in the first half of 2019, the number of permits for the construction of residential housing decreased by 22.2% compared to the previous year. According to the Housing Industry Association (HIA), the number of construction projects launched in the first quarter of 2019 decreased by 25%, to 46467 units.

Australia's economic growth in the first quarter of 2019 was 1.8% compared to a year earlier. It is the lowest growth rate during the last five years. The Reserve Bank of Australia (RBA) lowered its forecast for economic growth for 2019 from 2.75% to 2.5% and kept its official key rate at a record low of 1% in August 2019, reducing it by a cumulative 50 basis points in June and July to support the economy.

Non-residents can only buy residential property in Australia after FIRB approval. They cannot purchase an established (previously occupied) house. FIRB allows the purchase of unoccupied new housing after making sure that there is no shortage of housing for residents.

According to forecasts, housing prices are expected to fall. Current trends show a decline in housing prices by 5.53% in 2018 (-7.19%, adjusted for inflation). Fitch Ratings predicts the highest percentage drop in prices for dwellings. Now the ratio of household debt to GDP is 121% in the country. It is a high risk for the country's

economy. CoreLogic predicts a 20% drop in housing prices in Sydney and Melbourne. According to CBRE, housing prices will decline from 15% to 20% in Sydney and from 12% to 17% in Melbourne in 2020. Housing prices in Brisbane and Perth in the next two years will be below the 2011 level.

In 2011-2017, housing price growth in Australia amounted to 52.3% (adjusted for inflation by 35.6%). It means that housing prices in Sydney are overvalued by 50% (Fig. 1.3).

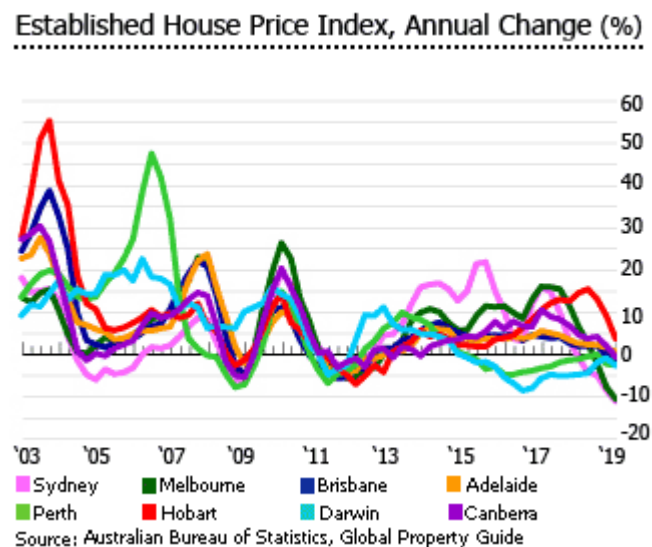


Fig. 1.3. Established house price index, annual change, %

Source: Australian Bureau of Statistics

To reduce construction risks due to high household debt, the government has sought to restrain market growth in recent years. Restrictions on lending have been introduced and taxes on foreign investment in the housing market have been increased.

Demand for real estate from non-residents is falling sharply. Australia's rising housing prices were partly the result of increased non-resident housing demand. The share of foreign buyers of residential real estate is more than 20% per year. However, demand is now declining due to tightening investment rules in real estate market both in Australia and in China, which is the largest foreign buyer.

According to the information of Foreign Investment Review Board (FIRB), the number of applications for foreign investment in Australian residential real estate decreased to 10036 in 2018, compared with 13198 in 2017 and 40141 in 2016. The

foreign investment in residential real estate halved and amounted to 12.5 billion AUD (8.5 billion US dollars) (Fig. 1.4).

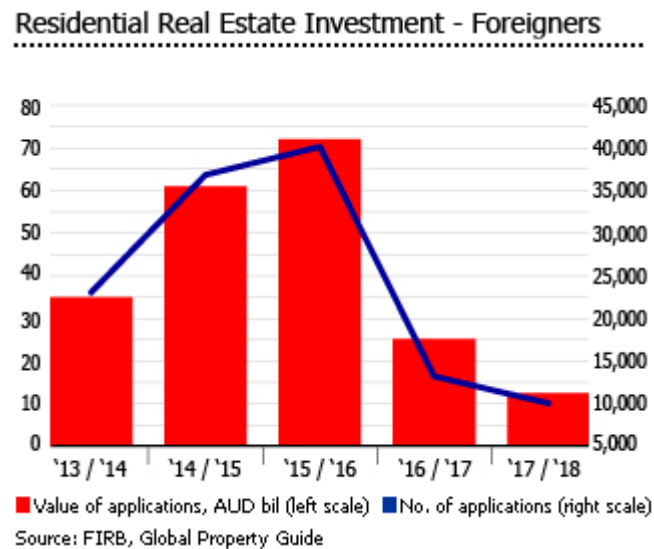


Fig.1.4. Residential real estate investments - foreigners

Source: Australian Bureau of Statistics

The share of Chinese buyers in the total number of investors in housing in Australia is the largest and amounts to 30% (12.7 billion AUD or 8.62 billion US dollars). However, two years ago, investment in housing amounted to 31.9 billion AUD (21.65 billion US dollars).

The fall in the number of applications submitted by foreigners for the purchase of residential real estate in Australia was 20% in 2018 compared with a year earlier. Reasons for the decline in foreign investment in housing:

- In New South Wales, stamp duties for foreign buyers are increased from 4% to 8%, and the annual land tax premium for foreign homeowners has increased from 0.75% to 2%.
- In Victoria, stamp duty for foreign buyers increased from 3% to 7%
- In Queensland introduced a 3% stamp duty on foreign buyers
- In May 2017, the federal government introduced a “ghost tax” for foreign investors, which amounts to 5000 AUD (3700 USD) per year from owners who leave their investment properties vacant or unavailable for rent for six months or more (Fig. 1.5).

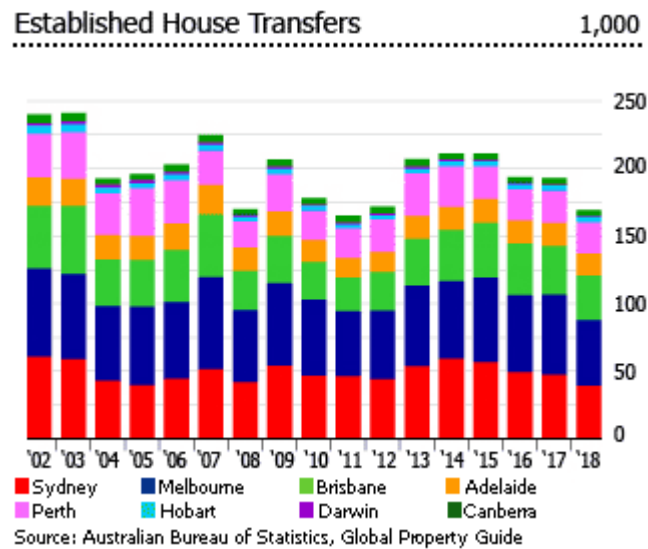


Fig.1.5. Established house transfers

Source: Australian Bureau of Statistics

In addition to these measures, the control of capital in China at the beginning of 2017 limited the ability of Chinese citizens to receive money out of the country, especially from owning of property abroad. According to the FIRB, in 2018, the largest share in non-resident housing purchases was in Victoria (46%), New South Wales (23%) and Queensland (17%) (Fig. 1.6).



Fig. 1.6. Dwelling purchases, 1000units

Source: Australian Bureau of Statistics

An important issue in Australia's housing market is housing inaccessibility. According to the 15th Annual Demographia International Housing Affordability Survey, in Australia especially in the five major cities, housing is "extremely unavailable" in 2018. A research of 309 metropolitan markets in Australia, Canada,

China (Hong Kong), Ireland, Singapore, New Zealand, the United Kingdom and the US uses a Median Multiple. The least accessible was the housing market in Sydney in 2018 and took the 3rd place in the ranking with a Median Multiple of 11.7. Next was Melbourne (9.7), Adelaide (6.9), Brisbane (6.3), and Perth (5.7). Housing affordability in Sydney has declined by almost 70% over the past 14 years (Fig. 1.7).

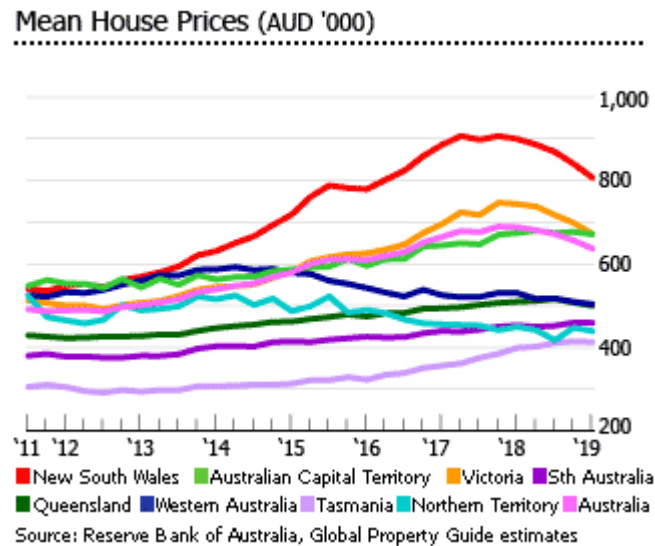


Fig. 1.7. Median house prices, thousands AUD

Source: Australian Bureau of Statistics

The housing market in Australia now has an increased risk. Since the early 2000s, housing prices have more than doubled, and household debt has grown. In recent years, the most significant drop in housing prices has been in Melbourne and Sydney. The high unavailability of housing in Australia, especially in Sydney, is due to a city consolidation policy that restricts or prohibits the construction of new housing on the outskirts or outside of the city.

The reduction in housing is a factor in its inaccessibility to buyers. In the first half of 2019, the number of housing permits decreased by 22.2% to 86788 units. In Queensland, the number of housing permits decreased by 32% compared to the same period in 2018. In the Australian Capital Territory, the decrease was -24.6%, in Victoria -22.5%, in New South Wales -20.9%, in South Australia -19.8%, in the Northern Territory -15.2%, in Western Australia -6.8%. In Tasmania, in the first half of 2019, the growth in the number of housing permits amounted to 6% per year compared to 2018 (Fig. 1.8).

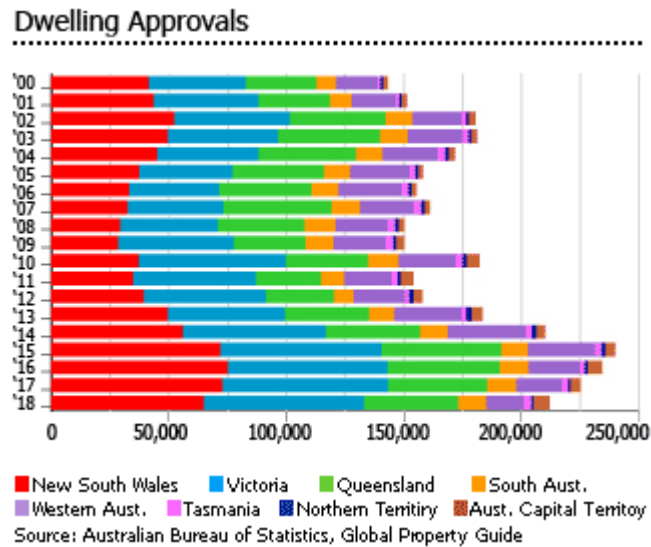


Fig. 1.8. Dwelling approvals

Source: Australian Bureau of Statistics

The number of residential buildings in Australia in the first quarter of 2019 stood at 10.3 million, which is 1.8% more than a year earlier. New South Wales has 31% of the housing stock, Victoria - 25.8%, Queensland - 20%, and Western Australia - 10.7% (Fig. 1.9).

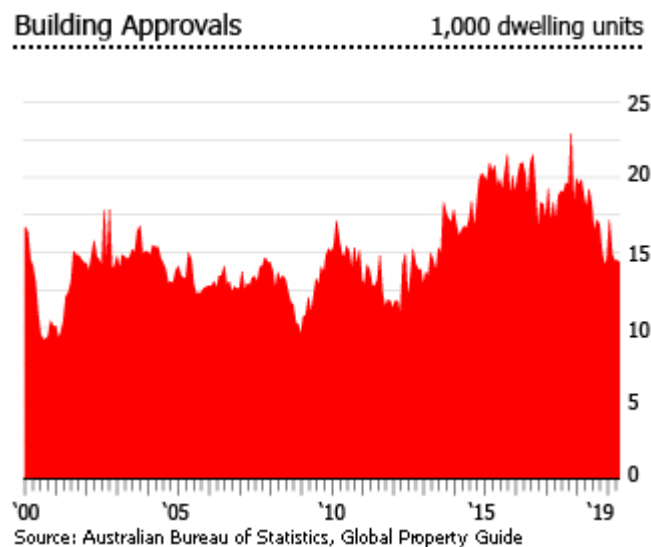


Fig. 1.9. Building approvals, 1000 dwelling units

Source: Australian Bureau of Statistics

A decrease in housing construction in 2020 is expected to be 8%, which is caused by a drop in demand in the housing market. The construction downturn is detrimental to large companies in the industry. The Ralan Group, one of Sydney's real estate developers, took up voluntary administration, leaving billions of dollars in real estate

projects and \$ 500 million loans. Cement producer Adelaide Brighton cut its interim dividend due to falling profits, which led to a drop in stock prices.

The reduction in housing construction will increase the inaccessibility of housing, which, in turn, will lead to an increase in the number of renters and a reduction in the number of buyers.

Reasons for under-building residential dwellings in Australia are:

- strict urban planning and land use restriction policies (“smart growth”, “urban containment”, etc.). State government zoning regulations cause the significant increase in housing prices;
- tax burden on builders and developers. In New South Wales, state taxes and other charges are about 30% of the price of new buildings;
- due to the global crisis in the credit market, some developers continue to struggle to secure financing.

Rental yields and residential rents in Australia continue to grow. In the 1st quarter of 2019, the gross rental yield in the country was 4.1%, compared with 3.95% in the previous quarter and from 3.77% a year earlier. Rental yields in Darwin are highest (6%). In the first quarter of 2019 the rental yields changed compared with a year earlier:

- in Sydney - 3.5% compared with 3.2%;
- in Melbourne - 3.6% compared with 3.1%;
- in Brisbane - 4.5%, compared with 4.4%;
- in Adelaide - 4.4%, did not change;
- in Perth - 4.3% compared with 3.9%;
- in Hobart - 5.1%, did not change;
- in Darwin - 6% compared with 5.9%;
- in Canberra - 4.9% compared with 4.7%.

During the year to Q1 2019, the average monthly housing rent in Australia increased by 0.4% to AUD 436 (297USD) per month. The highest growth in rental rates in the first quarter of 2019 was in Hobart (5.4%), less growth was in Canberra (3.6%), Melbourne (2.1%), Perth (2.1%), Brisbane (1.4%) and Adelaide (1.2%). The rental rents decreased in Darwin (-5.7%) and Sydney (-3.1%).

The RBA kept its official cash rate unchanged at a record low of 1% in August 2019. It has led to lower interest rates on mortgages:

- the average standard variable interest rate was 4.94% in July 2019 compared to 5.22% a year earlier.
- the average discounted variable interest rate on mortgages was 4.25% in July 2019 compared to 4.51% a year earlier;
- the three-year fixed interest rate on mortgages was 3.41% compared with 4.11% a year earlier (Fig. 1.10).

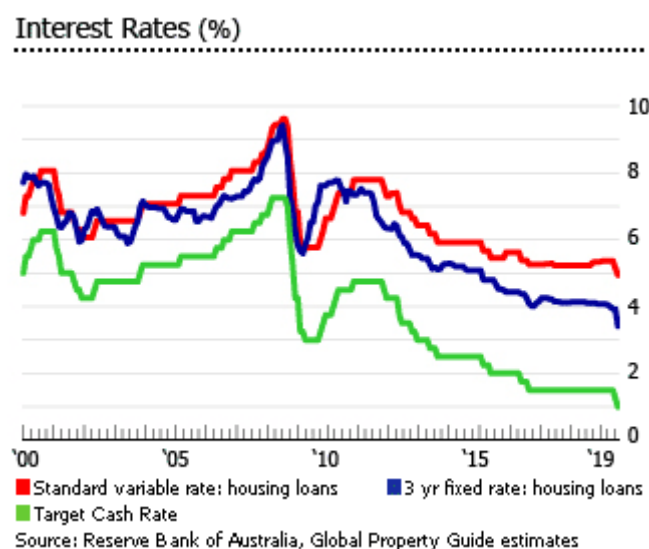


Fig. 1.10. Interest rates, %

Source: Australian Bureau of Statistics

Due to low interest rates, the mortgage market in Australia grew from about 15% of GDP in the 1970s to 95.5% in 2018. According to the information of RBA, residential mortgages rose by 5% in 2018 to more than 1.8 trillion AUD (1.23 trillion USD).

The mortgage debt for owners was 1.1 trillion AUD (750 billion USD) (6.4% more compared to 2017). Mortgage debt for investors grew by 0.7% to 557.5 billion AUD.

Due to lower housing prices, the Australian Agency for Prudential Regulation (APRA) has lifted the 30 percent residential mortgage restriction provided only by authorized deposit organizations (ADIs) since January the 1st, 2019. The supervisory benchmark was put in March 2017 to stop the growth of real estate prices (Fig. 1.11).

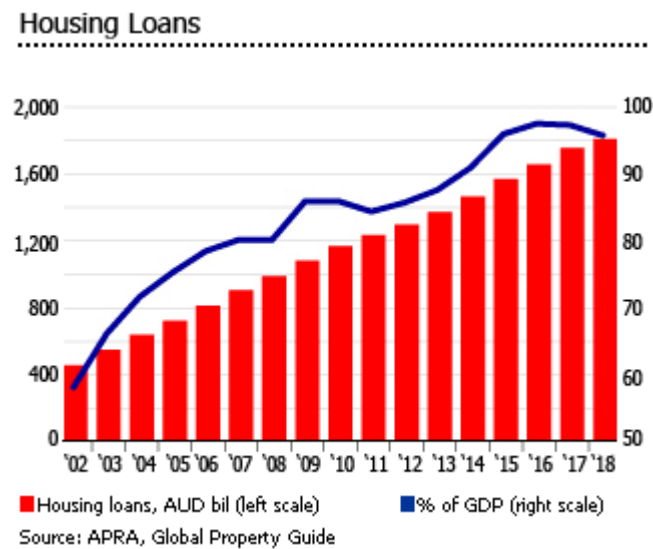


Fig. 1.11. Housing loans

Source: Australian Bureau of Statistics

In April 2018, the 10 percent limit for investor lending growth introduced in December 2014 was removed.

APRA's restrictive measures for investors and interest-only loans are aimed at reducing the risks of mortgage with increased risk and strengthening mortgage standards. APRA also proposes to remove the minimum interest rate of 7% to assess the performance of the mortgage and to allow ADI to set its own minimum interest rate to assess the performance and use the revised interest rate buffer at least 2.5% over the interest rate on the loan.

SECTION 2

FOREIGN ECONOMIC ACTIVITY OF AUSTRALIA: INTERNATIONAL TRADE AND CAPITAL MOVEMENT

2.1. Analysis of export and import in Australia

Australia is an open market country that favors world trade. The share of foreign trade in 2018 was 43.1% of Australia's GDP. The country takes the 5th place in economic freedom in the world, which contributes to the development of trade and the business climate. The main export commodities are coal and solid fuel (19.7%), gold (5.6%), iron ores and concentrates (18.7%), petroleum oils (2.3%), copper ores and concentrates (1.8%). The main imports are petroleum oils (12.7%), automobiles (7.3%), transmitting devices for radiotelephony (3.7%), machines and devices for automatic data processing (3.5%).

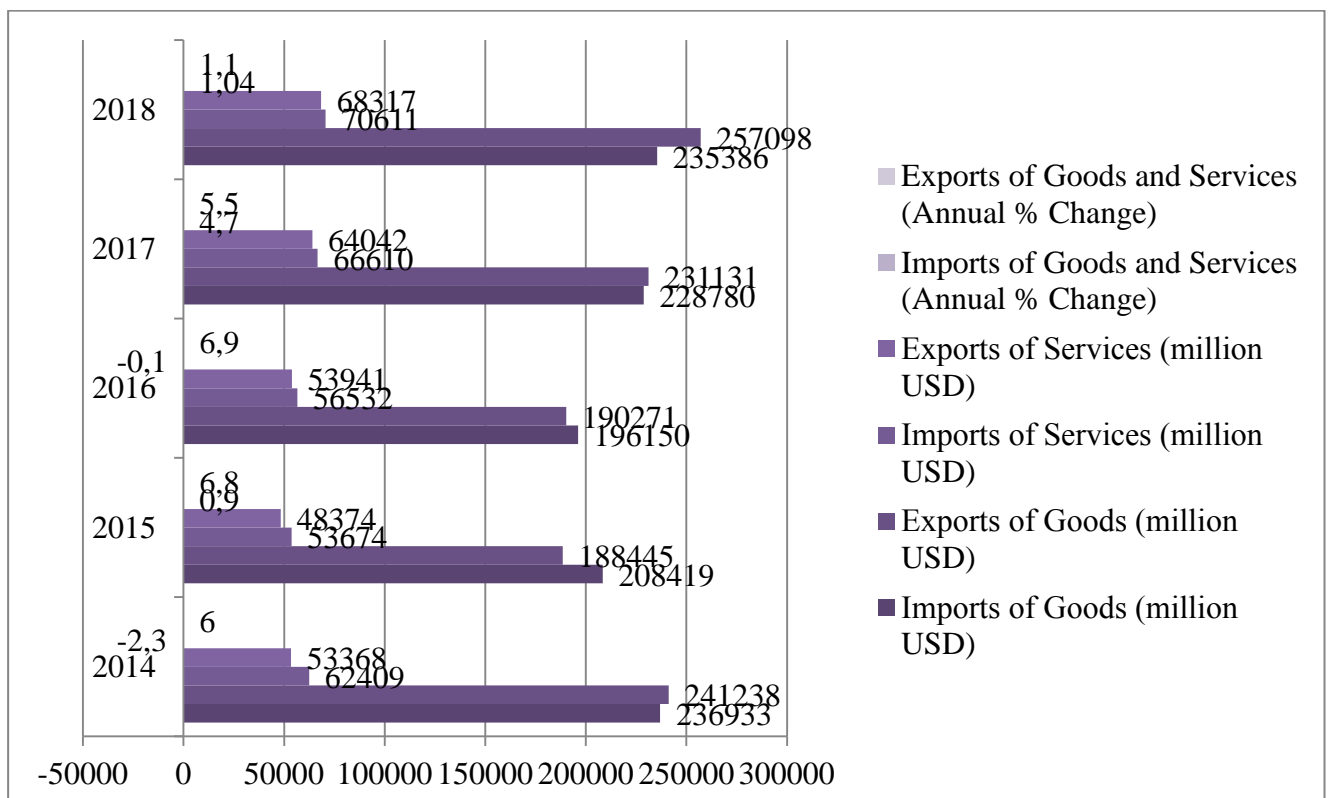


Fig. 2.1. The main indicators of foreign trade in Australia

Source: World Trade Organisation (WTO)

Australia's main trading partners are China, the EU, Japan, South Korea, India, the USA, Germany and Thailand. Australia's foreign trade structure depends on the economic situation in China. Australia and the EU began negotiations on a free trade agreement in mid-2018, but deals have not yet been finalized. The country is also negotiating trade agreements with the Gulf Cooperation Council, Peru, India, Indonesia and Hong Kong.

Australia's trade balance had a structural deficit until 2007, after which the trade balance was both positive and negative. In 2018, Australia's exports of goods and services totaled \$ 325 billion (\$ 257 billion goods and \$ 68 billion of services). Imports of goods (\$ 235 billion) and services (\$ 70 billion) amounted to \$ 305 billion, which increased to 7.2% compared to 2017. According to the World Bank, the country's trade balance in 2018 amounted to 21.1 billion US dollars, and the total balance (including services) was 17.3 billion US dollars.

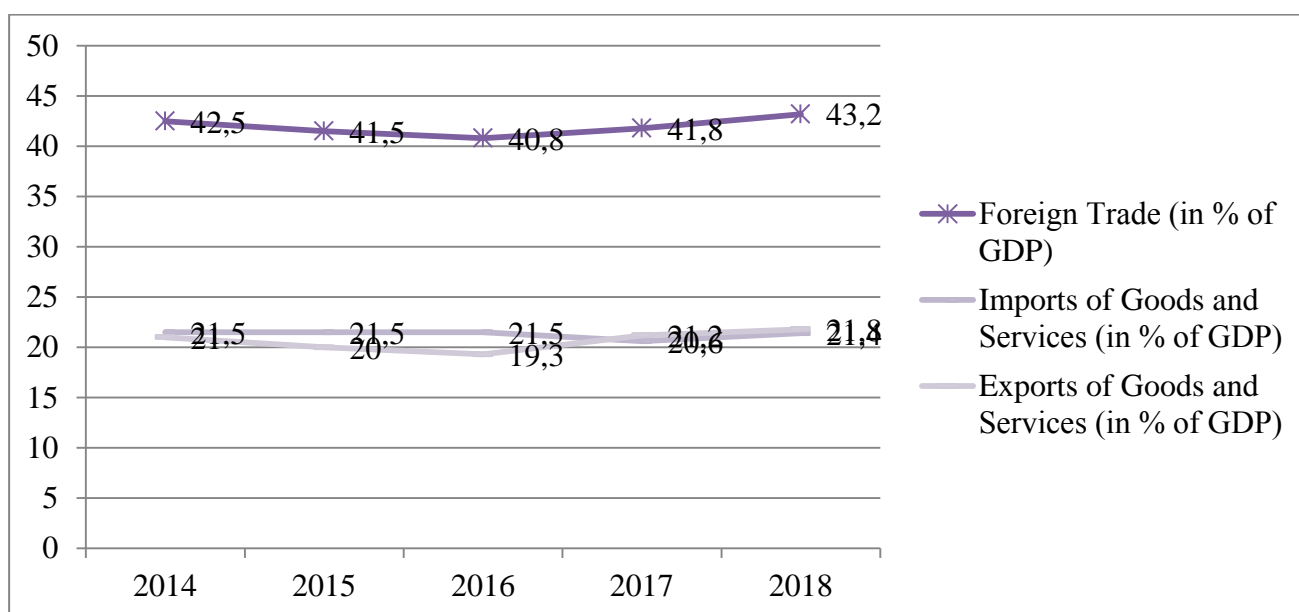


Fig. 2.2. The share of foreign trade in GDP of Australia

Source: World Bank

Changing standards for sulfur content in marine fuels from 3.5% to 0.5% will be a risk factor for Australia's exports in 2020.

Australia's foreign trade since 2010 (excluding 2015) has a positive trade balance. In 2018, the value of the country's exports of goods exceeded the value of imports by \$ 26.5 billion.

Export of goods from Australia is based on the export of oil and gas. For example, the export of mineral fuels and petroleum products in 2018 accounted for slightly more than a third (34.6%) of all goods exported abroad (Table 2.1). More than 90% of this product group is coal export (53.6%), of which Australia is the largest exporter in the world, and natural gas (37.0%).

The country also ranks first in the world in the export of ore, slag and ash. These goods rank second in Australia's export structure. In general, the export of ore, slag and ash amounted to 23.5% of all exports in 2018, iron accounted for 78.2% of the exports of these goods.

Table 2.1

Commodity structure of Australia's foreign trade
(share of selected goods), %, 2001-2018

	export				import		
	2001	2017	2018		2001	2017	2018
Total, \$ billion	63,3	229,7	253,8	Total, billion	64,3	221,4	227,3
Mineral fuels and oil products	20,8	29,1	34,6	Equipment, mechanical devices	16,8	13,0	14,0
Ores, slag and ash	8,1	26,2	23,5	Mineral fuels and oil products	8,7	10,3	13,3
Pearls, precious or semiprecious stones, metals and products from them; bijouterie; coins	4,9	6,7	6,4	Vehicles (except railway and trams), their components	12,5	13,3	13,2
Meat and edible meat offal	5,1	4,0	4,0	Electric machines and equipment	12,1	10,3	11,3
Inorganic chemistry products	4,0	2,7	3,2	Instruments and devices, their parts and accessories	4,2	3,5	3,7

Source: Trademap

Equipment and mechanical devices (14.0% of goods imported into the country), mineral fuels and oil products (13.3%), vehicles and their components (13.2%) have almost equal shares in Australia's commodity imports.

In the geographical structure of foreign trade, China is a leader both in the supply of goods to the country and in the procurement of Australian products. In 2018, commodity exports to China accounted for 29.2% of all goods exported abroad, while imports accounted for 24.2% (Table 2.2). The main export items to China are ores, slag and ash (58.1% of exports to the country), mineral fuels and petroleum products

(14.3%). Australia imported electric machinery and equipment from China (23.2 % of imports from China), equipment and mechanical devices (18.7%).

Table 2.2

Geographic structure of Australia's foreign trade (share of countries),%, 2001-2018

Trade partner	export			Trade partner	import		
	2001	2017	2018		2001	2017	2018
China	6,2	29,6	29,2	China	8,7	21,9	24,2
Other countries	0,5	15,1	18,8	US	18,2	10,3	10,2
Japan	19,4	10,3	10,3	Japan	13,0	7,2	7,4
Korea Republic	7,8	5,5	5,4	Germany	5,6	4,7	4,9
India	2,0	4,4	4,0	Thailand	2,3	4,9	4,8
US	9,8	3,8	3,6	Malaysia	3,3	3,8	4,3

Source: Trademap

Japan is Australia's major trading partner, despite a decline in its share in foreign trade. The share of Japan in 2018 decreased to 10.3% of exports of goods after 19.4% in 2001 and to 7.4% of imports of goods after 13.0%. In 2018, coal was the largest share in the export of goods to Japan - 52.9% in the export structure. Most of the supplies from Japan to Australia were vehicles (49.0% of imports), mainly cars.

The US is the largest supplier of goods to Australian markets, accounting for 10.2% of imports of goods. The main imports from the US to Australia were equipment and mechanical devices (21.5% of imports) and vehicles (13.5%). In the structure of exports of goods from Australia, the US occupies the 5th place. Australia mainly supplies meat and edible meat offal to the US markets (22.4% of exports).

2.2. Evaluation of foreign direct investment of Australia

After an economic slowdown due to the international financial crisis, FDI flows to Australia have been strong since 2011 (with the exception of 2015), driven by the energy sector. According to the World Investment Report 2019 published by UNCTAD, Australia stays the world's 8th top economy in terms of FDI inflows in 2018. In 2018, FDI inflows increased by 43%, and reached \$60 billion (a record level). This increase is mainly due to M&A sales in financial and insurance activities (\$19 billion). Investment in extractive industries remained moderate in 2018. Moreover, Australia established a

new on line application portal to facilitate the process of foreign investment applications. FDI stocks reached more than \$682 billion in 2018, a slight decrease (-0.9% compared to 2017). The main investing countries in Australia are the United States, the United Kingdom, Belgium, Japan, Kong Kong, Singapore, Luxembourg, the Netherlands, China, and France. These investments are mainly oriented towards the mining sector, manufacturing, finance and insurance, real estate and trade. While Australia's resources sector, which has traditionally been attractive for foreign investment, continues to receive investor interest, the services sector is now receiving greater attention.

Table 2.3

The main indicators of investment climate in Australia

Foreign Direct Investment	2016	2017	2018
FDI Inward Flow (million USD)	45,522	42,294	60,438
FDI Stock (million USD)	606,140	689,396	682,866
Number of Greenfield Investments	407	412	421
FDI Inwards (in % of GFCF)	15.3	n/a	n/a
FDI Stock (in % of GDP)	45.8	n/a	n/a

Source: UNCTAD, 2019

Foreign investors had a total of \$3.3 trillion invested in Australia at the end of 2018. A key benefit of foreign investment is employment, with foreign direct investment in Australia supporting the employment of 1.2 million Australians (or 1 in 10 jobs in Australia). Our world-leading minerals and energy sector, in particular, has long been powered by foreign investment.

The United States was Australia's largest foreign investor by a wide margin, accounting for \$896.9 billion in investments in Australia at the end of 2018. The United States also received the largest portion of Australian investment overseas, again by a wide margin, accounting for \$664.5 billion at the end of 2018. The total amount of Australian money invested overseas was around \$2.3 trillion at the end of 2018.

Australia's Top 5 Two-Way Investment Partners at the end of 2018:

- United States \$1,561b
- United Kingdom \$815b
- Japan \$344b

- Belgium \$310b
- Hong Kong (SAR of China) \$164b

Table 2.4

Australia's Top 10 Investment Sources in 2018 (\$ million)

Rank on level of total investment in Australia	Country	Direct investment	Total investment (includes portfolio investment)
1	United States	189,919	896,850
2	United Kingdom	83,174	481,387
3	Belgium	2,445	305,323
4	Japan	92,520	219,236
5	Hong Kong	25,972	116,602
6	Singapore	26,286	82,038
7	Luxembourg	9,570	80,985
8	Netherlands	53,502	79,025
9	China	40,688	64,954
10	Switzerland	9,224	53,693
Total all countries		849,098	3,266,431
of which:			
	APEC	437,747	1,541,982
	ASEAN	41,991	110,044
	EU28	188,746	1,087,933
	OECD	527,000	2,382,589

Source: ABS

Table 2.5

Australia's Top 10 Investment Destinations in 2018 (\$ million)

Rank	Ranked on total Australian investment abroad	Country	Direct investment	Total investment
1		United States	127,291	664,512
2		United Kingdom	83,855	333,117
3		Japan	830	125,122
4		New Zealand	62,094	103,040
5		China	13,506	77,099
6		Germany	np	73,643
7		Cayman Islands	np	63,317
8		Singapore	20,221	59,418
9		France	2,432	50,983
10		Hong Kong (d)	4,079	47,407
Total all countries			590,566	2,280,237
of which:				
		APEC	274,991	1,217,323
		ASEAN	40,259	98,321
		EU28	117,797	612,121
		OECD	329,055	1,592,406

Source: ABS

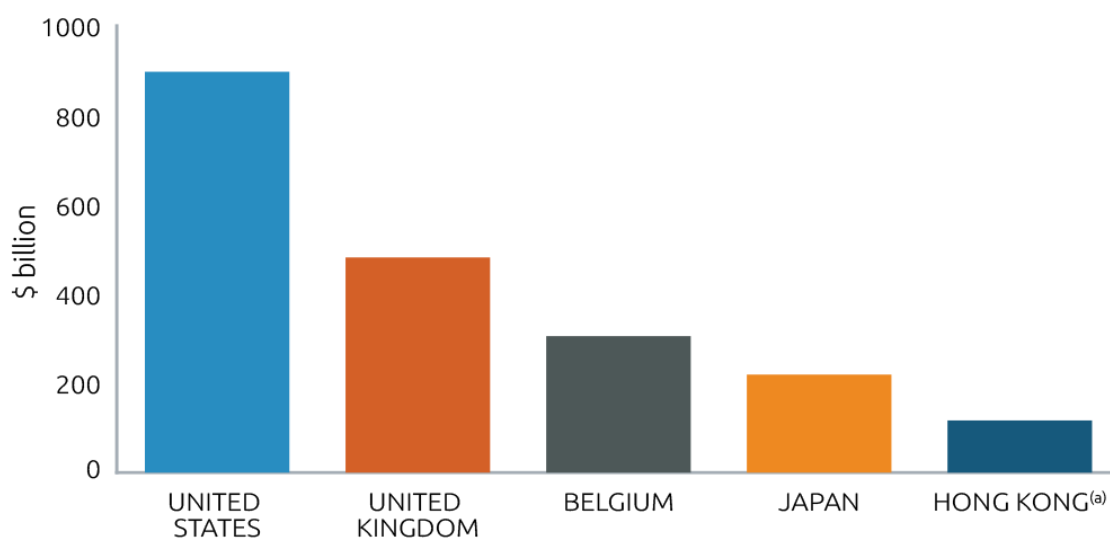


Fig. 2.3. Australia's Top 5 Total Foreign Investment Sources at the end of 2018

Source: ABS

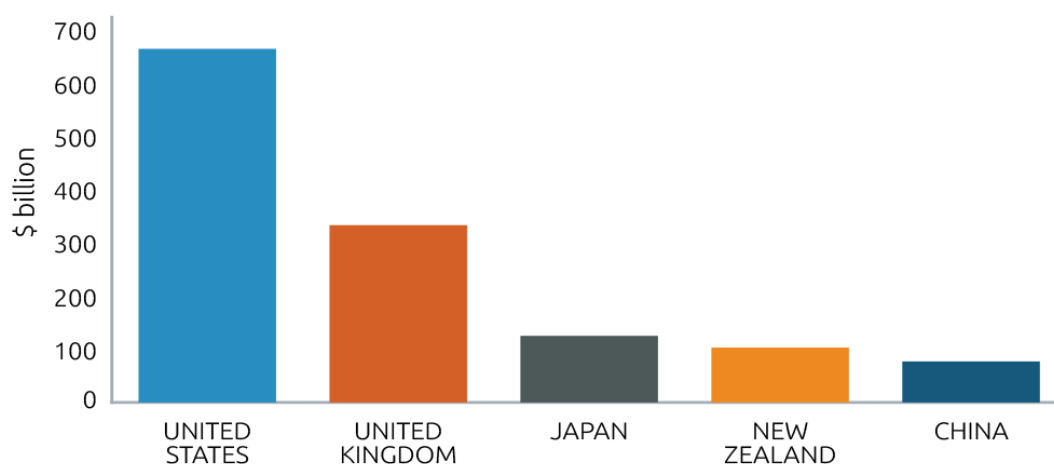


Fig. 2.4. Australia's Top 5 Total Investment Abroad Destinations at the end of 2018

Source: ABS

Australia had the thirteenth-highest share of direct foreign inward investment in the world in 2018. Foreign direct investment takes place when an individual or entity from outside Australia establishes a new business or acquires ten per cent or more of a local enterprise and has some control over its operations. Foreign direct investment was Australia's second-largest type of foreign investment at the end of 2018.

The most common type of investment in Australia at the end of 2018 was portfolio investment, which refers to the purchase of securities (such as stocks or bonds) or equity and debt transactions that do not offer the investor any control over the operation of the enterprise. This type of investment was worth \$1.8 trillion, followed by

direct investment at \$849.1 billion, and other investment and financial derivatives at \$494.8 billion and \$153 billion, respectively.

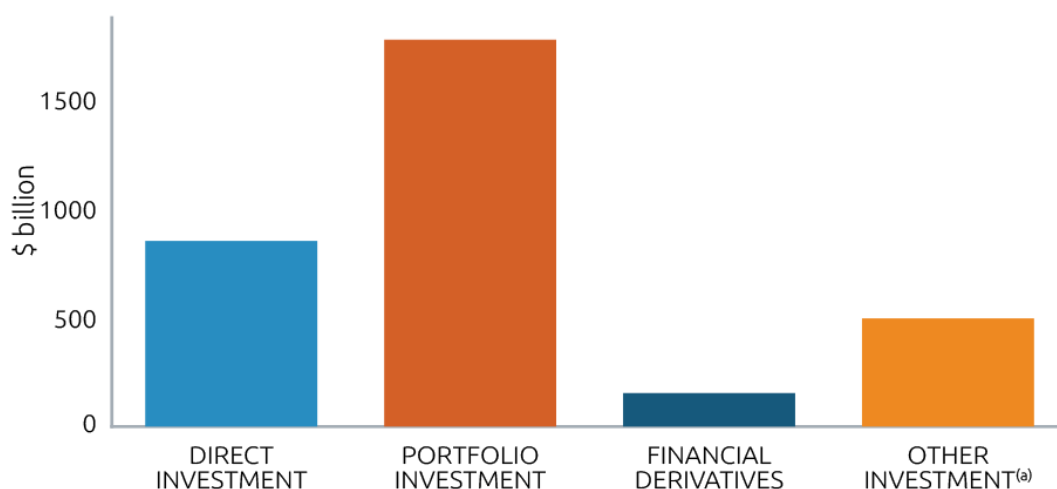


Fig. 2.5. Foreign Investment in Australia by Type at the end of 2018

Source: ABS

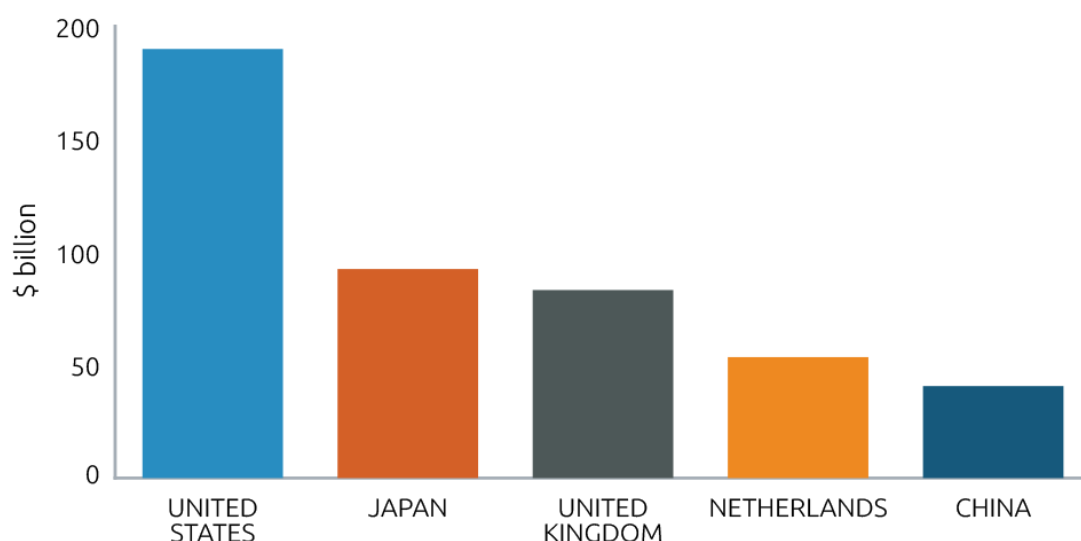


Fig. 2.6. Australia's Top 5 Foreign Direct Investment Sources at the end of 2018

Source: ABS

Foreign direct investment in Australia supports the employment of nearly 1.2 million people, or 1 in 10 jobs, a 2018 Australian Bureau of Statistics study commissioned by the Department of Foreign Affairs and Trade and Austrade showed.

According to the study, foreign-owned businesses pay higher wages on average than Australian-owned businesses.

The study gathered the most up-to-date data available, from 2014-15, on the impact of foreign investment in Australia (table 2.6).

Table 2.6

Australia's Inward Foreign Direct Investment Global Ranking 2018

Rank	Country	US\$b	% change	% share
1	United States	7,807	19.1	24.8
2	Hong Kong(a)	1,969	21.1	6.2
3	United Kingdom	1,564	6.0	5.0
4	China	1,491	10.1	4.7
5	Singapore	1,285	14.4	4.1
6	Canada	1,084	11.3	3.4
7	Switzerland	1,060	7.3	3.4
8	Netherlands	975	17.1	3.1
9	Germany	931	18.5	3.0
10	Ireland	880	4.4	2.8
11	France	875	24.1	2.8
12	Brazil	778	10.7	2.5
13	Australia	662	14.8	2.1
World inward stock		31,524	14.0	100.0

Source: UNCTADstat database.

Australia's top sectors for foreign direct investment in 2018 were mining, with a 37.1 per cent share of the total worth \$315.3 billion, followed by manufacturing with a 11.5 per cent share worth \$97.7 billion, and real estate activities with a 10.7 per cent share worth \$91 billion (Fig. 2.7).

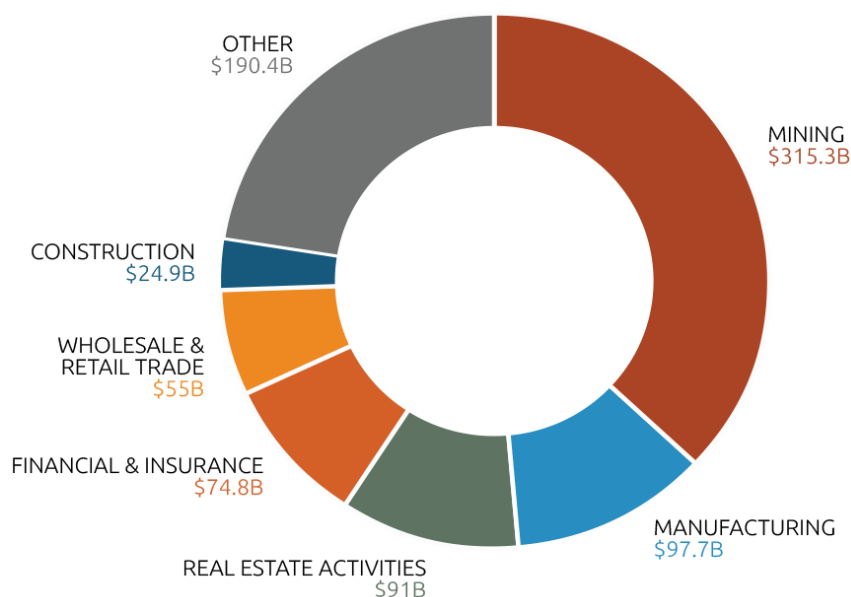


Fig. 2.7. Australia's Foreign Direct Investment by Industry at the end of 2018

Source: ABS

Australia was the seventeenth-largest international direct investor in the world at the end of 2018. Australia's top direct investment abroad destinations are English-speaking countries, however Australian investment in other regions, including in Asia, is increasing. Australia's major direct investment destinations at the end of 2018 were the United States, the United Kingdom, New Zealand, Singapore and Papua New Guinea.

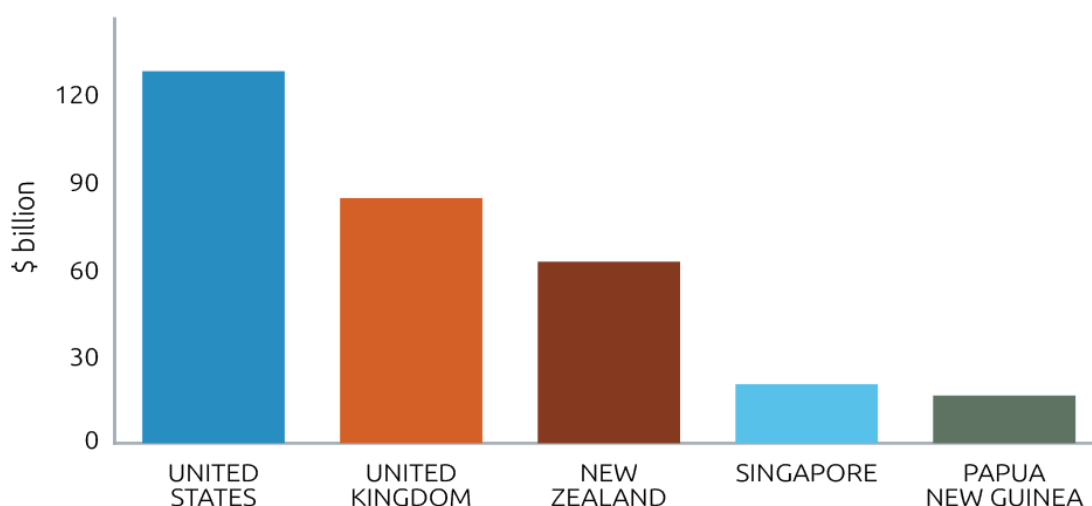


Fig. 2.8. Australia's Top 5 Direct Investment Abroad Destinations at the end of 2018

Source: ABS

Table 2.7

Australia's Direct Investment Abroad Global Ranking 2018

Rank	Country	US\$b	% change	% share
1	United States	7,799	22.6	25.3
2	Hong Kong(a)	1,804	16.7	5.9
3	Germany	1,607	20.3	5.2
4	Netherlands	1,605	14.8	5.2
5	United Kingdom	1,532	2.7	5.0
6	Japan	1,520	15.6	4.9
7	Canada	1,487	18.8	4.8
8	China	1,482	9.2	4.8
9	France	1,452	13.4	4.7
10	Switzerland	1,272	6.1	4.1
11	Ireland	899	6.8	2.9
12	British Virgin Islands	880	8.7	2.9
13	Singapore	841	13.0	2.7
14	Belgium	691	17.0	2.2
15	Spain	597	13.3	1.9
17	Australia	461	14.8	1.5
World outward stock		30,838	15.0	100.0

Source: UNCTADstat database

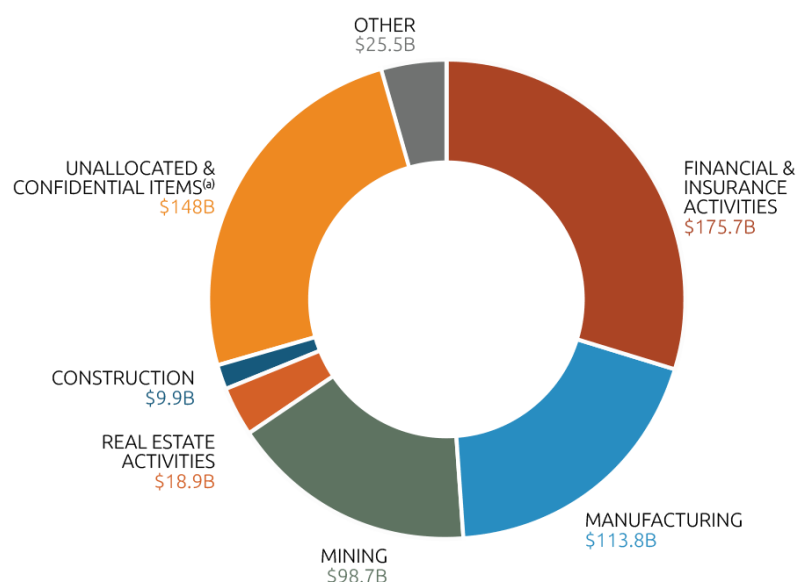


Fig. 2.9. Australia's Direct Investment Abroad by Industry at the end of 2018

Source: ABS

The largest share of Australian direct investment abroad went into financial and insurance activities at the end of 2018. Investment in this sector increased by 3.1 per cent to \$175.7 billion at the end of 2018 to account for 29.8 per cent of the total. Investment in manufacturing grew by 19.4 per cent to reach \$113.8 billion, accounting for 19.3 per cent of the total.

2.3. Assessment of investment climate in Australia and its attractiveness to Ukrainian investors

According to the World Bank's Doing Business report, Australia ranked 14th out of 190 countries in 2020 (in 2019 it ranked 18th). Economic liberalism, stability, a transparent legal system, and strong economic growth over the past 25 years have made Australia one of the most open countries for FDI among OECD countries. FDI amounts more than a third of their GDP. Despite the geographical location, the business environment and the trading environment of Australia are favorable. A factor of investment attractiveness is Australia's strategic position in the Asia-Pacific region and its political ties with the United States. Australia has amended investment regulation laws, streamlined the investment process, and provided an objective assessment of foreign investment and the Australian government's interest in foreign investors. Australia is a participant of the trade agreements, such as the Comprehensive and

Progressive Agreement for Trans-Pacific Partnership and the Regional Comprehensive Economic Partnership.

The government provides an objective and transparent approach to potential investment projects and rejects projects that are not valuable for the national interests. A flexible approach is aimed at attracting investment in the most priority sectors and projects. The government stimulates FDI growth and advocates for Australia.

An important factor in attracting foreign investment in the Australian economy is a slowdown in economic growth and a positive trade balance.

Economic growth in the 1st quarter of 2019 was 1.8% compared to 2018, and 2.3% in the 4th quarter of 2018. This is the slowest growth in five years. The IMF predicts real GDP growth of 2.1% in 2020 compared with Australia's average annual growth of 2.7% from 2010 to 2018.

The Australian dollar (AUD) depreciated by almost 15% against the US dollar in 2018, from 1 AUD = 0.8073 USD in January 2018 to 1 AUD = 0.6894 USD in July 2019. Over the two previous years, the national currency has increased (Fig. 2.10).

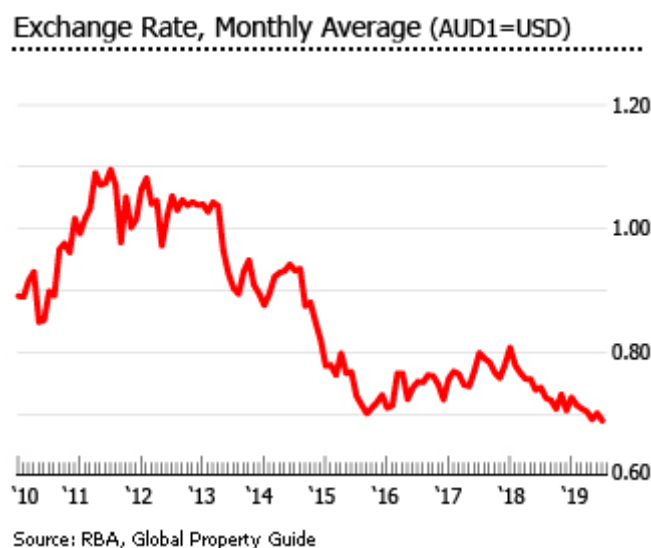


Fig. 2.10. Exchange rate, monthly average (AUD1=USD)

Source: ABS

The growth of the trade balance amounted to 8.04 billion AUD (5.46 billion USD) in June 2019. This is the highest surplus in the history of the country, which lasts 18 consecutive months. In the first half of 2019, the trade surplus increased to 34.17 billion AUD (23.19 billion USD). The growth was more than four times compared to

7.56 billion AUD (5.13 billion USD) in the first half of 2018. This is due to higher export prices of iron ore and LNG, as well as a decrease in imports of non-industrial transportation equipment such as cars and bicycles.

In June 2019, exports grew by 1% to 42.38 billion AUD (28.77 billion USD), reaching a historic high. Imports decreased by 4% to 35.63 billion AUD (24.19 billion USD).

Australia benefits from a trade war between the US and China, increasing exports to both countries. In June 2019, Australia's exports to China increased by 35%, while US exports also increased by 15% (Fig. 2.11).

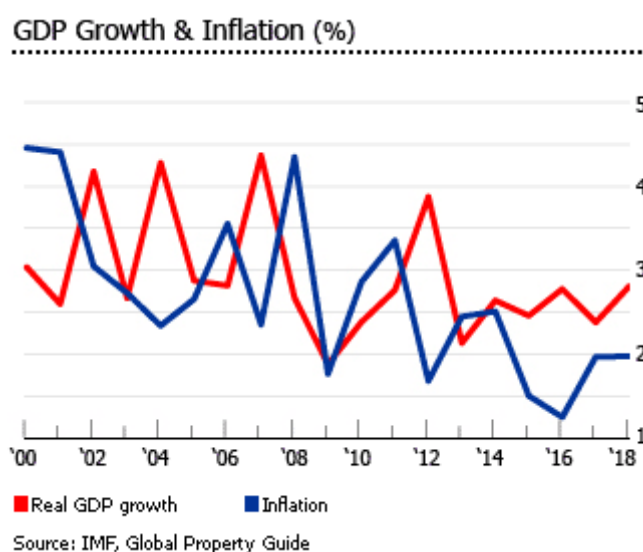


Fig. 2.11. GDP growth & inflation, %

Source: ABS

The unemployment rate was 5.1% in the 1st quarter of 2019, compared with 5.5% a year earlier. In April 2019, there were about 703,900 unemployed in Australia, down by 3.7% from 2019 (table 2.8).

Table 2.8

The Active Population in Australia

	2015	2016	2017
Total activity rate	64.70%	64.60%	64.49%
Men activity rate	70.44%	70.60%	70.69%
Women activity rate	58.57%	58.47%	58.37%
Labour Force	12,270,000	12,440,000	12,500,000

Source: ILO, Laborstat

Inflation was 1.6% in the second quarter of 2019, compared with 1.3% in the previous quarter, but compared with 2.1% in 2018.

Investor need to consider the working conditions in business.

The working week lasts 38 hours. The main types of labor contracts are permanent and fixed-term. A permanent contract means that employee works continuously until the termination of employment. A fixed-term employment contract is concluded for a specific period. All employment contracts must take into account the rights provided by Fair Work Act of 2009.

The minimum wage is AUD 17 per hour, according to the ILO. According to the Australian government, the minimum wage in 2017 was AU \$ 3011 per month.

Gross average monthly wage was AUD 5529 according to the ILO. According to the Australian government, the average weekly wage was 1119 AUD in 2018.

Companies pay the retirement savings account contribution of 9.5% of the ordinary time earnings (OTE) (up to AUD 50810 per quarter). It is expected that this indicator will continue until June 30, 2021. Resident workers pay social security contribution for Medicare of 2%. Australian Council of Trade Unions (ACTU) provides the rights of employees.

The average age in Australia increased by 2 years, from 35 in 1998 to 37 in 2018. Population growth is around 1.6%. The share of people under the age of 15 years is 18.8% and is declining, while the share of people over 65 years old is growing to 15.7%. On average, a family consists of 2.55 people (in 2001 it consisted of 2.6 people). 24% of families consist of one person, and 37% of families are couples with or without children.

85.9% of people are urban. 32% of people live in New South Wales, 26% - in Victoria, and 20% - in Queensland. The south of the country is the most densely populated. Sydney, Melbourne and Brisbane have the largest number of inhabitants.

GDP per capita PPP in 2018 was AUD 75500 (USD 53799). Before taxes, the average annual salary is 82400 Australian dollars (2.6 higher compared to 2017). The purchasing power of Australians is high and increased in 2018. Adjusted disposable income per person is AUD 47189 per year. Consumption in the country is growing,

despite a slowdown in the third quarter of 2018. The Gini Index is in the average of OECD countries at 0.347.

Australia has loyal taxation. The goods and services tax (GST) is withheld at a rate of 10%. Some services and products are non-taxable. These include “input taxed” supplies (e.g. financial supplies, leasing of residential premises and the sale of residential premises that are not “new”), and “GST-free” supplies (e.g. the sale of going concerns and certain exports of goods and services).

Companies pay income tax at a rate of 30%. Non-resident companies pay income tax only from activities in Australia.

Australian tax residents pay capital tax at the rate of 30% (or at a reduced rate of 27.5%) of net capital gains worldwide. Australian foreign tax residents include only capital gains in assessed income for “taxable Australian property”

Small businesses can receive capital gains tax concessions if they have: annual turnover of less than AUD 2 million, assets are used in a closely related small business, the total value of assets (excluding personal assets) does not exceed AUD 6 million.

Deductions may be claimed for tax depreciation and tax losses in last year. Companies may demand a deduction of interest expenses incurred in connection with offshore investments that bring a non-assessable non-exempt dividend. Bad debts that were written off as bad before the end of the fiscal year can be deducted. Losses can be carried forward indefinitely, but cannot be carried back.

In order to avoid double taxation on foreign tax paid on income in Australia, foreign income tax offsets are available.

Other corporate taxes are fringe benefits tax, payroll tax (varies from 2.5% to 6.85%), land tax (excluding the Northern Territory) (up to 3.7%), stamp duty (up to 7%).

SECTION 3

DEVELOPMENT OF AN INTERNATIONAL INVESTMENT PROJECT IN REAL ESTATE

3.1. Research of the demand for rental of foreign real estate in Australia

After rising prices in the past ten years and a downturn in Australia's real estate market in the 2020s, changes are expected.

Real estate price growth will slow down compared to previous decades. The main reason is the fall in interest rates. The driver of growth in demand for rental housing is the demographic situation. Population growth in major cities in Australia will continue. The role of public transport will increase as road conditions worsen. Rentals will become a more important part of the population.

Consider the main future trends for the Australian real estate market in the 2020s.

As mentioned earlier in the thesis, interest rates will remain low in the 2020s. Therefore, a rise in property prices due to rising interest rates is not possible. Rates cannot be reduced, so they will not lead to higher house prices over the next decade, by analogy with the last decade.

The decline in interest rates was caused by an aging population, economic growth in Asia, high debt levels and lower economic growth rates. These reasons for low rates are likely to persist in the 2020s, which means that global interest rates will remain low in the next decade.

The RBA is expected to cut rates in the future. With high unemployment, the RBA will pursue an unconventional monetary policy in order to lower interest rates on loans. As a result, mortgage rates will be below 3 percent in the 2020s, with some borrowers paying about 2 percent.

Australia's population growth is expected to accelerate in the 2020s, which will help maintain strong housing demand.

Australia's population is growing faster than in almost all advanced economies. In the 2010s, Australia's average annual population growth was 1.6 percent. The main reason is the growth of immigration.

In the 2010s, population growth was concentrated in Melbourne and surrounding regions, Sydney, and southeastern Queensland (see table).

Table 3.1

The Population and Population in Australian Cities

City	Population growth, 2010 to 2018	Population in 2018
Melbourne	20.7%	4,784,608
Sunshine Coast	20.3%	333,436
Geelong	19.7%	268,277
Gold Coast – Tweed Heads	18.9%	679,127
Brisbane	16.7%	2,379,724
Darwin	15.9%	134,544
Sydney	15.4%	4,835,206
Perth	15.3%	2,020,138
Ballarat	15.1%	105,471
Canberra – Queanbeyan	14.8%	457,563

Source: ABS

These trends may change in the 2020s. The government encourages migration to smaller cities or larger regional cities, rather than Sydney Melbourne and Brisbane, through preferential terms for skilled workers and other incentives for migrants.

Regional cities will become more attractive to migrants. Policies that stimulate regional migration are aimed at improving transport links between regional cities and large cities. With the growth of the mining sector, Western Australia and Queensland will attract more migrants.

Higher property prices in Sydney and Melbourne compared to other cities in Australia can lead to population growth away from two major cities.

Strong population growth is expected in the 2020s, after which it may begin to slow down. The government has reduced the annual influx of permanent migrants to 160,000 from 190,000. The number of foreign students may increase as a result of the expansion of universities. Changes in skilled work visas may mean fewer qualified

immigrants. The reduction in immigration will be insignificant due to the preservation of the current social and economic situation of Australia.

If in the 2020s the annual population growth is 1.6 percent, then by December 2029 the population of Australia will be about 30 million people (see table 3.2). If the annual population growth slows down to 1.3 percent, then by the end of the decade the population of Australia will be about 29.1 million people.

Table 3.2

Slightly higher rates of population growth make a big difference to population numbers in a decade's time

Average annual population growth rate in 2020s	Average annual net overseas migration (approximate)	Estimated population at December 2029 (millions)
1.7%	307,000	30.3
1.6%	278,000	30.0
1.5%	248,000	29.7
1.4%	219,000	29.4
1.3%	190,000	29.1

Sources: ABS

Access to public transport in major Australian cities will increase in the 2020s. Cities expand and traffic becomes more intense. Car ownership may decline as more people choose public transport.

Australia's transport infrastructure is improving, but the annual cost of traffic jams will increase from \$ 19 billion in 2016 to \$ 39 billion in 2031.

Australia has a very high level of car ownership due to high incomes, growing cities and huge distances between regions (Fig. 3.1)

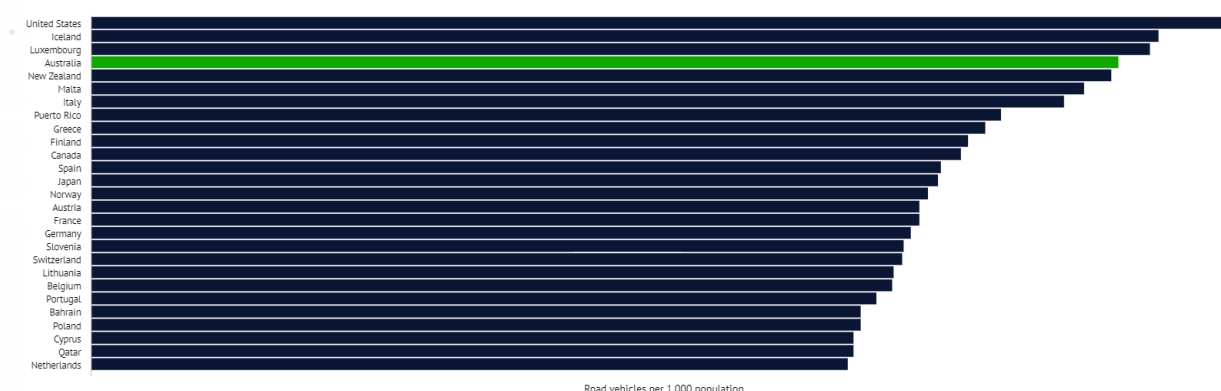


Fig. 3.1. Road vehicles per 1,000 people, by country

Note: Top 30 countries shown.

Sources: Our World in Data; World Bank.

But car ownership patterns are changing and will evolve in the 2020s.

Car ownership declined after previous growth. The number of registered passenger vehicles per 1000 people in 2001 was 509 (Fig.3.2). In 2016, this figure rose to 579, but since then it has remained generally stable. Fewer people get a license or buy a car, instead they choose public transport, bikes, electric scooters, ride-sharing and car-sharing services (Fig. 3.2).

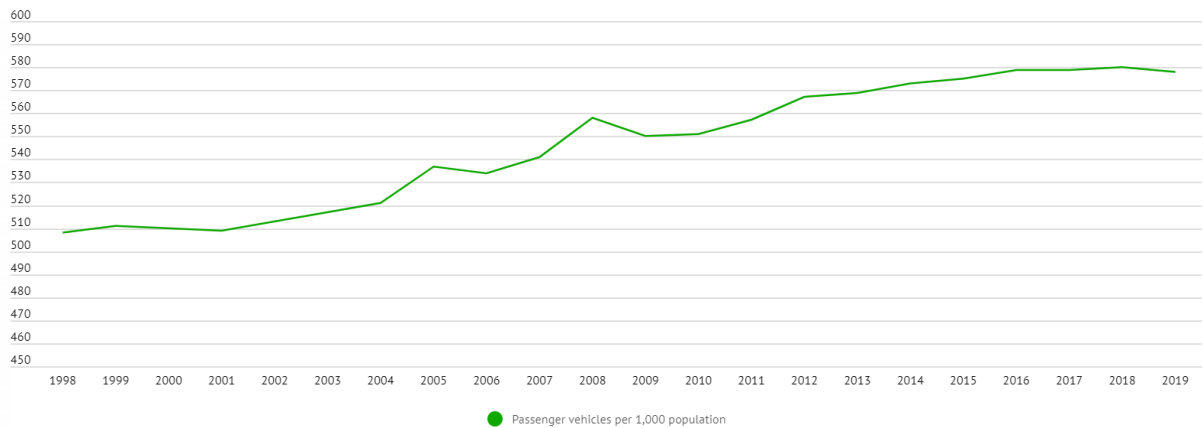


Fig. 3.2. Registered passenger vehicles per 1,000 population

Source: ABS

The number of cars per person in Australia has been growing for decades but looks to have peaked.

In Sydney and Melbourne, the number of car owners is declining, and parking prices hinder the growth of car purchases. Now in Sydney and Melbourne the level of car ownership is higher than in other cities in Australia and the world.

An increase in demand for access to public transport will lead to an increase in medium density buildings. New apartments will be built in the suburbs, as these areas are more accessible for public transport. New buildings will require less parking and more space for cars and motorbikes.

In the 2020s, more medium-density housing and more spacious family-friendly apartments will be built. These apartments will have three or four bedrooms, as well as common areas such as gardens or playgrounds.

Demand for medium-density residential buildings, for example, townhouses or terraces or apartments, is growing in the suburbs, closer to the city. But in large cities in Australia there is a shortage of housing and medium-density apartments.

As Australian cities grow and congestion increases, demand for medium-density housing in the suburbs will increase.

Government programs are aimed at increasing the construction of these dwellings in the 2020s.

The size of private houses will also decrease due to rising land prices, smaller families and environmental concerns. The average size of homes fell to a 17-year low in 2019, although houses are still 25 percent larger than 30 years ago.

In the next decade, demand for energy-efficient and well-designed homes that are better suited to warm climates will increase.

Governments can also change building standards. The new National Building Code was adopted in May 2019, but the requirements for energy efficiency have not changed, while the minimum “6 stars” standard for standalone houses remains, despite the climate warming. Construction standards may be changed due to defects in the apartment and disasters due to flammable cladding and 2019 forest fires.

If tenants gain more political power, landlords will also have to comply with higher standards of energy efficiency, heating and cooling.

An increase in the number of tenants will make them a more influential political constituency; as a result, rental laws will be more likely to favor tenants.

The proportion of households that rent from private landlords has been increasing for decades. At the end of 1994, 18.4 percent of households were privately rented. By 2017, this figure increased to 27.1 percent. If this trend continues in the 2020s, by 2030, 31.5 percent of households will be rented out privately.

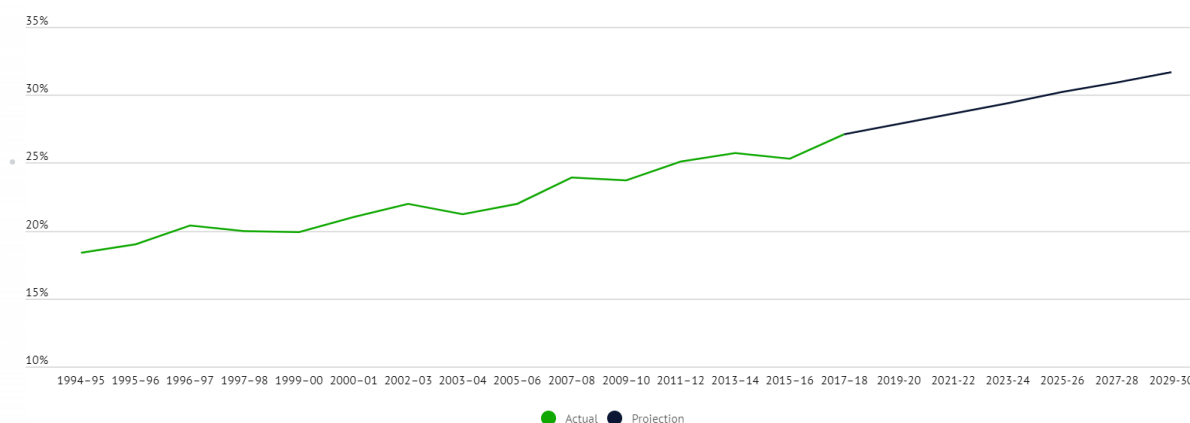


Fig. 3.3. Rental of households from a private landlord, percentage of all households

Source: ABS

The growth in the number of tenants is most significant among young and middle-aged households (table 3.3). Rising housing prices are a major factor, as are social factors (later marriage and further education).

The growing number of tenants in middle-aged households means that more and more people have become long-term tenants. This is a big change in society, because renting is a temporary measure, as most tenants tend to buy their own home.

Table 3.3

Number of middle-aged households renting privately

Proportion of each age group that rents privately						
	15 to 24	25 to 34	35 to 44	45 to 54	55 to 64	65+
1997-98	69%	40%	22%	12%	8%	5%
2007-08	78%	50%	27%	17%	11%	7%
2017-18	78%	57%	33%	22%	16%	9%
2027-28 (projected)	84%	66%	38%	26%	19%	11%
Change, 1997-98 to 2017-18 (percentage points)	9	16	11	9	7	4

Notes: 65+ for 2007-08 is the average of 65-74 and 75+.

Source: ABS

The number of tenants will likely increase by more than the number of new landlords. It's likely many new rental properties will be owned by existing landlords. Institutional landlords, such as "build-to-rent" developments, are also likely to own a growing share of the rental stock.

The growing number of renters will give tenants more political clout. Long-term renters are also likely to be even more passionate about improving conditions for renters. And as people become more politically engaged as they get older, a larger

cohort of older renters will mean renters' political voice will get louder (if recent trends continue, almost 40 per cent of 35 to 44-year-olds will be renting by the end of the 2020s).

A stronger political voice for renters will likely result in changes to tenancy laws. Changes could include renters getting more security of tenure (such as through the removal of no-grounds evictions and longer notice periods), renters being able to make modifications to their homes and dwellings needing to meet higher energy-efficiency standards. Some changes to tenancy laws are already happening, most notably in Victoria.

A larger cohort of older renters may also force the government to include some of the value of the family home into the age pension assets test. The current rules can create inequities, as asset-rich home owners can receive the full pension while some renting pensioners miss out.

The housing needs of ageing Baby Boomers will change Australia's housing stock.

The oldest Boomers will be in their mid-80s at the end of the decade, with the youngest around retirement age. Many older Boomers will need more residential aged care by the end of the 2020s. The Aged Care Financing Authority estimates that 76,000 new residential aged care places will be needed over the decade from 2017 to meet growing demand.

In addition, new dwellings that enable seniors to live independently for longer will need to be built, as well as existing homes renovated. These new dwellings could be townhouses and units with few stairs or elevators, accessible bathrooms and low-maintenance gardens. Planning rules will need to change to enable these types of dwellings to be built near where retirees live as there is a strong desire among retirees to "age in place".

Governments will need to undertake reforms so retirees are not discouraged from downsizing. Possible reforms include abolishing stamp duty, including part of the home in the age pension assets test and changing planning rules.

3.2. Substantiation of the investment project for the creation of real estate agency in Australia, the assessment of the need for investment resources and identification of sources of their involvement

The project is dedicated to the organization of a real estate agency in Australia in Melbourne. Real estate investments are one of the most reliable types of investments. Real estate does not depreciate over time. Demand in this area always remains high. The housing issue is paramount for people. To solve this problem, they most often turn to real estate agencies. Even in crisis times, this market does not experience serious losses.

To create a promising company, a potential investor has developed a clear plan for the implementation of tasks. This business plan addresses important aspects of this business.

Key success factors for project implementation:

- A huge number of consumers.
- High amount of resources offered.
- Free entry to the market.
- Low upfront costs.
- High profitability of agreements.

Real estate agency will provide services for the purchase, sale, leasing of real estate. The main customers are individuals in Melbourne, but it is also planned to provide services to legal entities. There is no seasonality in this business. The main thing is to organize the work correctly, to be flexible to external conditions and their change.

The main functions of a real estate agency:

- Search for potential buyers, tenants, communication and establishment of business contacts with them. Selection of real estate options at the request of the buyer or tenant, familiarization with the selected property.
- Accompanying the agreement, the agency helps its client in the collection and timely execution of a package of documents, coordinates the terms of the contract.

Specialists monitor the correct documentation in accordance with local and governmental laws that are currently in force.

- The agency can mediate, representing the interests of the client, when it is necessary to interact with other institutions or specialists who are involved in the agreement.

- The agency provides the client with complete and truthful information about the property that interests the client, about the terms of this agreement. Real estate specialists remind and offer the client insurance of the risks of loss of ownership of the acquired property, or the risks of damage to the property.

- Realtors keep the secret of the transaction and all confidential information that in the course of their work they receive about the client or the agreement. The agency is responsible for the safety of documents that were entrusted to him during the work.

- Real estate specialists study the market, search for offers and monitor demand for real estate.

To maximize profits, the company will also provide additional services:

- Consulting services;
- Legal services;
- Collection and execution of documents;
- Comprehensive design services.

A real estate agency will work according to the following schedule:

- 10:00 - 21:00 on business days;
- 9:00 - 18:00 on weekends.

In the niche of real estate agencies in Australian cities, competition is high. Therefore, to implement the most effective activities, special attention should be paid to advertising. For a future company, it is advisable to focus on the most effective advertising tools in this area. Recommended promotion methods:

1. Free ads in newspapers.

The cost of such advertising is zero. This type of advertising is effective and economical. You can advertise not about the agency, but about the apartments.

2. Advertising in specialized publications.

It can be, for example, a magazine or a newspaper about real estate. Most often, in this way agency can attract clients who are legal entities or people who are knowledgeable in this area.

3. Posting information in local online directories.

Many people search for a real estate agency through similar sites, where they usually post information and contact details. And users, as a rule, can leave their feedback.

4. Own website.

One of the most effective promotion methods. Firstly, people can immediately get acquainted with the price list, range of services, specialists and much more. It is important to fill the site as much as possible, to make it attractive, understandable and of high quality. Agency can develop a feedback system, online counseling.

5. Internet advertising.

This type of advertising is especially relevant if agency has a website. Immediately go feedback, views.

The organization of the process of opening a real estate agency and maximizing its profits is carried out in 2 stages.

At the 1st stage, the necessary documents are processed.

- Registration of the enterprise in the chosen form of ownership. The LLC was selected as the investor.
- It is necessary to use the type of activity corresponding to the provision of intermediary services when buying, selling and renting real estate.
- This type of activity is not subject to licensing.
- The investor will pay income tax in accordance with Australian tax laws in the amount of 30%.
- Opening of a current account in a bank.
- A realtor agency is required to stamp to certify contracts.

At the 2nd stage, there will be a review of the real estate market to select the optimal premises. Basic requirements for the premises:

- Area: 15 - 20 m²;

- It is desirable to have parking for 5 cars or more;
- Location - city center. The best option is to rent real estate in a presentable building (a shopping mall or business center).

At the 3rd stage there are supposed:

- Repair of the premises;
- Purchase of necessary furniture, office equipment;
- Search and training of personnel;
- Conducting an advertising campaign;
- Beginning of the work of the agency.

To organize the work of a real estate agency, it is necessary to hire personnel:

- Director;
- Realtors (4 people);
- Lawyer (1 person);
- Office manager (1 person);
- Cleaning worker (1 person).

It is necessary to pay attention to the staff of the agency. Sociability, friendliness and endurance is the minimum set of qualities for a real estate agent.

At the initial stage of the agency's work, a staff of about 4 people will be required. Experience in real estate for the head and agents is required.

It is necessary to develop schemes for rewarding real estate agents for the results achieved. Realtor training begins with an introduction to a range of core responsibilities. The main activities are:

- seek customers;
- negotiate and consult;
- accompany transactions (collection of documents, real estate appraisal, conclusion of contracts);
- monitor the real estate market.

The client and the realtor must conclude a written contract, which describes the procedure for the provision of services. The agent represents the interests of the client under this contract and must act in accordance with the laws. Housing, family, land

codes, regulations and legal acts, instructions and regulations are binding. Agent responsibilities sometimes include after-sale customer service.

The staff of the real estate agency will have an experienced lawyer to resolve legal issues.

The office manager will be responsible for solving current office tasks and processing incoming requests.

The salary of a realtor is formed as follows: 10 000 AUD salary and a bonus part, which is 40% of the work done. All other employees receive a fixed salary.

Table 3.4

Payroll fund of the 1st year of project implementation, thousands AUD

	Months												
	1	2	3	4	5	6	7	8	9	10	11	12	Year
Realtors (4 people) salary	40	40	40	40	40	40	40	40	40	40	40	40	480
Realtors (4 people) premium part	150	162	174	182	197	183	171	177	173	150	192	154	2065
Director	30	30	30	30	30	30	30	30	30	30	30	30	360
Lawyer (1 person)	25	25	25	25	25	25	25	25	25	25	25	25	300
Office manager (1 person)	20	20	20	20	20	20	20	20	20	20	20	20	240
Cleaning workers	10	10	10	10	10	10	10	10	10	10	10	10	120
Social security contributions (9,5% of payroll fund)	12	12	12	12	12	12	12	12	12	12	12	12	143
Total	287	299	310	319	334	320	307	313	309	287	329	291	3708

As the table shows, the average payroll is planned at the level of 308958 AUD per month.

Table 3.5

Investments in organizing a real estate agency, AUD

Costs	Amount
Paperwork	2000
Office rental (3 months)	48000
Repair of office	40000
Furniture	50000
Technique	120000
Website development	50000
Advertising campaign	100000
Total	410000

Monthly expenses include the following cost items (table 3.6).

Table 3.6

Monthly expenses (fixed costs) of a real estate agency, AUD

Costs	Amount
Rental of premises	16000
Communication services	3000
Shipping costs	5000
Utilities	3000
Average payroll	308958
Advertisement	30000
Accounting services	3000
Total	368958

The sales plan presents averaged data. Situations are possible when one month the revenue will not cover all expenses, and in another company it may get superprofits. The table 3.7 shows the average percentage of commission per transaction. They vary in different regions.

Additional services include the following list of services (table 3.7).

Table 3.7

Additional services of a real estate agency

Types of services	Amount, AUD
1. Consulting services	
1.1. Oral consultation. Initial analysis of the situation, general recommendations.	250
1.2. Property valuation (without issuing a certificate of evaluation)	250
2. Legal services	
2.1. Drawing up a civil contract.	1 000
2.2. Comprehensive legal support for transactions with real estate.	min 5 000
3. Collection and execution of documents.	
3.1. Extract from the register of property.	1 000
3.2. Certificate from the place of previous registration.	1 000
3.3. Certificate of non-participation in privatization from the previous place of residence.	1 000
3.4. Technical / cadastral passport.	1 000
3.5. Authorization of guardianship and trusteeship.	1 000
3.6. Extract from the register of property rights.	1 000
3.7. Registration of a duplicate title document, in return for the lost.	min 5 000
4. Comprehensive design services	
4.1. Privatization.	min 10 000
4.2. Registration of inheritance.	min 10 000
4.3. Registration of a package of documents for the alienation of the object.	min 10 000

As we can conclude, the main services of real estate agency include consulting services, legal services, comprehensive design services and collection and execution of documents.

3.3. Calculation of estimated cash flows and economic effectiveness of the investment project in real estate

The next table shows the forecasting the performance of the company in the first year (table 3.8).

Table 3.8

Forecasting the performance of the company in the first year, thousands AUD

	Months												Total
	1	2	3	4	5	6	7	8	9	10	11	12	
Revenue (income)	386	417	451	474	515	483	454	468	453	392	496	410	5 396
(-) Monthly expenses	369	369	369	369	369	369	369	369	369	369	369	369	4 428
(=) Gross income	17	48	82	105	146	114	85	99	84	23	127	41	968
(-) Tax (30%)	5	14	25	31	44	34	25	30	25	7	38	12	290
(=) Net profit	12	34	57	73	102	79	59	69	58	16	89	28	678
(=) Net income on an accrual basis	39	73	130	203	306	385	444	513	572	588	676	705	4 634

Investments for the implementation of the project will be carried out at the own expense of investor.

The Reserve Bank of Australia (RBA) lowered its forecast for economic growth for 2019 from 2.75% to 2.5% and kept its official key rate at a record low of 1% in August 2019. Therefore, it was decided to use a discount rate of 1.0%. The discount coefficient is determined as:

$$K_n = \frac{1}{(1+r)^n} \quad (3)$$

where K_n - the discount coefficient, r - the discount rate, n - the number of a period, $n = 1 \dots 3$.

Table 3.9

Planned revenue in the first year of work, AUD

		1	2	3	4	5	6	7	8	9	10	11	12
Purchase, sale of residential real estate	Commission (from transaction)	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
	The number of transactions per month	2	2	2	2	3	3	2	2	1	2	2	2
	Average transaction amount	2500000	2500000	2500000	2500000	2500000	2500000	2500000	2500000	2500000	2500000	2500000	2500000
	Total revenue from the service provided	150 000	150 000	150 000	150 000	225 000	225 000	150 000	150 000	75 000	150 000	150 000	150 000
Purchase, sale of commercial real estate	Commission (from transaction)	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
	Number of transactions per month	1	1	1	1	1	1	1	1	2	1	2	1
	Average transaction amount	2700000	2700000	2700000	2700000	2700000	2700000	2700000	2700000	2700000	2700000	2700000	2700000
	Total revenue from the service provided	81 000	81 000	81 000	81 000	81 000	81 000	81 000	81 000	162 000	81 000	162 000	81 000
Rental of housing	Commission (of the rental rate)	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
	The number of transactions per month	10	12	14	15	10	11	13	15	11	8	15	15
	Average transaction amount	15 000	15 000	15 000	15 000	15 000	15 000	15 000	15 000	15 000	15 000	15 000	15 000
	Total revenue from the service provided	75 000	90 000	105 000	112 500	75 000	82 500	97 500	112 500	82 500	60 000	112 500	112 500
Office and retail premises for rent	Commission (of the monthly payment)	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%	7%
	Number of transactions per month	5	6	7	8	8	5	7	7	8	6	4	3
	Average transaction amount	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000	20 000
	Total revenue from the service provided	70 000	84 000	98 000	112 000	112 000	70 000	98 000	98 000	112 000	84 000	56 000	42 000
Additional services		10 000	12 000	17 000	18 000	22 000	24 000	27 000	26 000	21 000	17 000	15 000	24 000
Revenue (income)		386 000	417 000	451 000	473 500	515 000	482 500	453 500	467 500	452 500	392 000	495 500	409 500

According to the formula (3):

$$K_1 = \frac{1}{(1 + 0.01)^1} = 0.99$$

$$K_2 = \frac{1}{(1 + 0.01)^2} = 0.98$$

$$K_3 = \frac{1}{(1 + 0.01)^3} = 0.971$$

The amount of discounted cash flows are shown in the table below.

Table 3.10

Calculation of discounted cash flows, AUD

Year	CF	DCF
0	- 1 066 233,3	- 1 066 233,3
1	704 770,8	697 792,9
2	725 914,0	711 610,6
3	747 691,4	725 701,9
NPV		1 068 872,0

The amount of discounted income for 3 years will be 1 068 872,0 AUD, this indicator exceeds the amount of investments, and this means that the period of reimbursement of initial investments will be about 1 year (table 3.11). Next, we present the calculation of investment performance indicators in the table 3.11.

Table 3.11

Indicators for evaluating the effectiveness of investments

ROI, %	discounted ROI, %	IRR	PP, years	DPP, years
204%	200%	44%	0,96	1,00

One of the main dynamic indicators of investment efficiency is the index of return on investment, which allows you to determine the extent to which the investor's value increases per 1 AUD of investment. In our case, the discounted percentage of return on investment was 204%. Payback period is 1 year. Thus, we can conclude that the project is effective. $NPV > 0$ (1 068 872,0 AUD), IRR is 44%. Thus, such an investment is acceptable to investors. Break-even point is reached in the first month of operation.

CONCLUSIONS AND PROPOSALS

Despite the fact that Australia is located at a considerable distance from other world countries, the Australian economy is highly integrated in world economic processes. According to the World Bank's Doing Business report, Australia ranked 14th out of 190 countries in 2020 (in 2019 it ranked 18th). Economic liberalism, stability, a transparent legal system, and strong economic growth over the past 25 years have made Australia one of the most open countries for FDI among OECD countries.

After a decade of price boom and busts, Australia's property market will see big changes in the 2020s. Property prices are likely to rise at a slower pace than they have in previous decades, mainly because interest rates cannot fall much further. Major demographic trends will be a driving force. Australia's big cities will continue to grow and so will large regional towns. Public transport will become more important as congestion gets worse. Renters will become a more powerful political voice. The demand for rental of foreign real estate in Australia will grow.

Australia is an open market country that favors world trade. The share of foreign trade in 2018 was 43.1% of Australia's GDP. The country takes the 5th place in economic freedom in the world, which contributes to the development of trade and the business climate. Australia's trade balance had a structural deficit until 2007, after which the trade balance was both positive and negative.

Australia stays the world's 8th top economy in terms of FDI inflows in 2018. In 2018, FDI inflows increased by 43%, and reached \$60 billion (a record level). This increase is mainly due to M&A sales in financial and insurance activities (\$19 billion). Investment in extractive industries remained moderate in 2018. Moreover, Australia established a new on line application portal to facilitate the process of foreign investment applications.

As an analysis of Australia's economic development and its position in the global economy and trade has shown, that Australian market is favourable for

foreign investment. The income level of the population is high, business taxation is too loyal. The slowdown in economic growth of Australia is not so significant. It is compensated by a sustainable economy, a stable national currency, transparent and fair legislation. Despite the reduction in the residential housing market in Australia, we should expect its stabilization due to the stability of solvent demand of the population. All these facts confirm that the investment project for organization a real estate agency that will specialize in the residential housing market in Australia is promising in the future.

The project is dedicated to the organization of a real estate agency in Australia in Melbourne. Real estate agency will provide services for the purchase, sale, leasing of real estate. The main customers are individuals in Melbourne, but it is also planned to provide services to legal entities.

The amount of discounted income for 3 years will be 1 068 872,0 AUD, this indicator exceeds the amount of investments, and this means that the period of reimbursement of initial investments will be about 1 year. The calculation of investment performance indicators showed that the discounted percentage of return on investment was 204%. Payback period is 1 year. Thus, we can conclude that the project is effective. $NPV > 0$ (1 068 872,0 AUD), IRR is 44%. Thus, such an investment is acceptable to investors. Break-even point is reached in the first month of operation.

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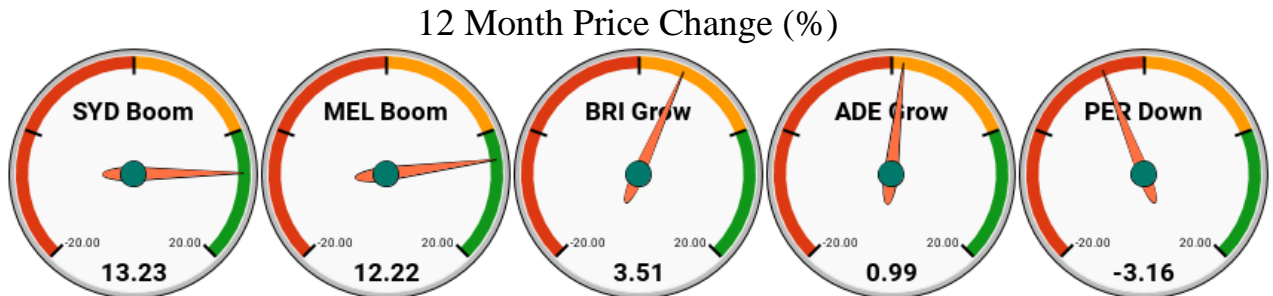
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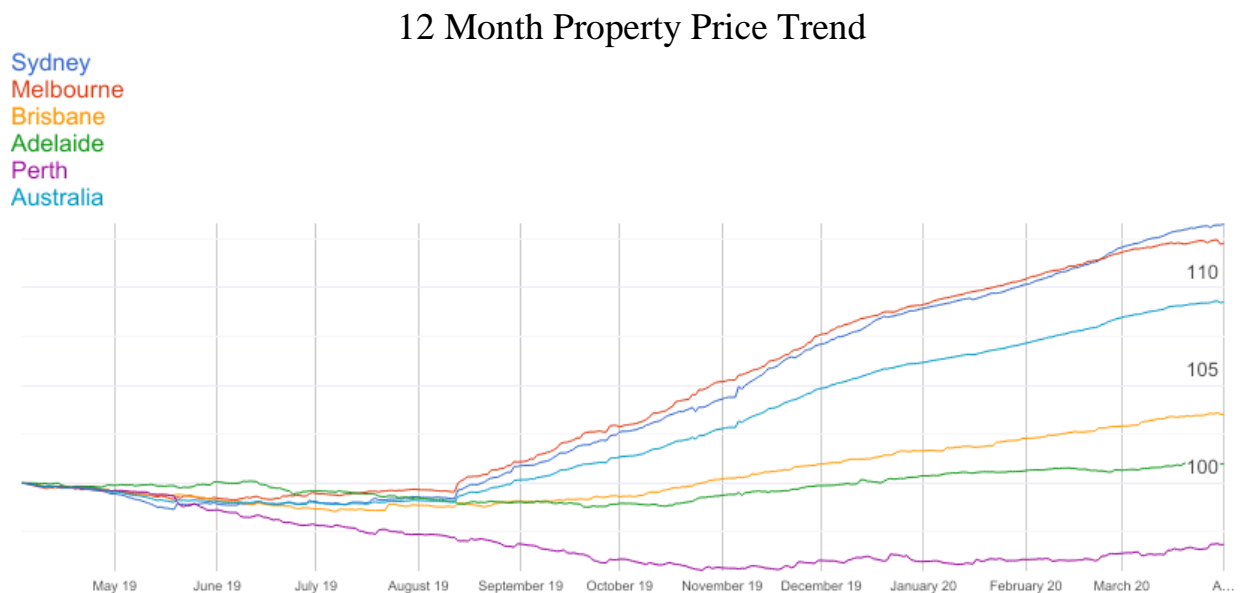
APPENDICES

APPENDIX A

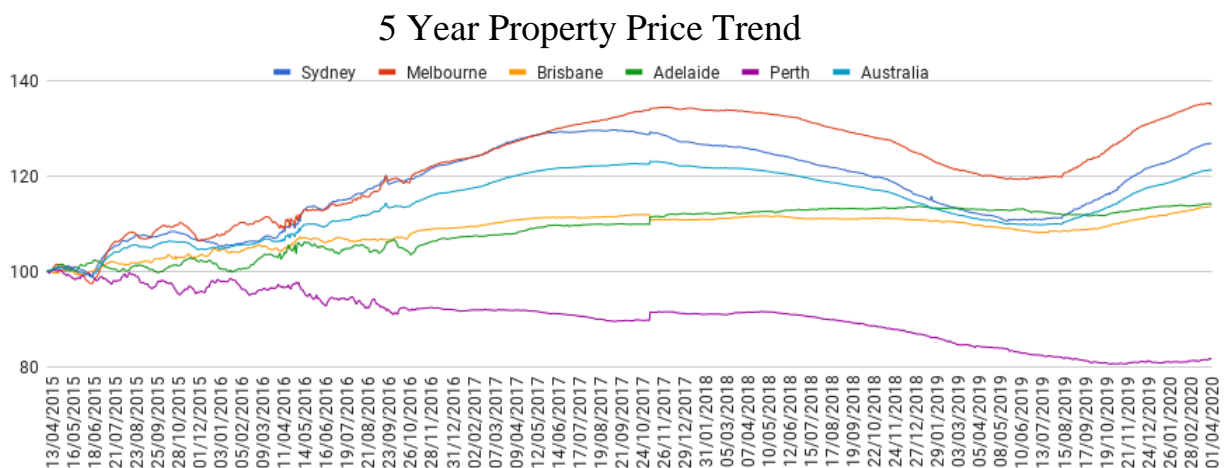
The main indicators of the housing market



Source: CoreLogic, updated daily, 1st April 2020.



Source: CoreLogic index, rebased to 100 a year ago, updated daily, 1st April 2020



Source: CoreLogic index, rebased to 100 5 year ago, updated daily, 1st April 2020

CoreLogic Index Price Changes

Updated Daily (01/04/2020)	1 Day	7 Days	1 Month	3 Months	1 Year	2 years	3 years	4 years	2020+
Sydney	0.05%	0.12%	1.07%	3.96%	13.23%	0.80%	-0.20%	18.09%	3.96%
Melbourne	0.06%	-0.11%	0.43%	2.88%	12.22%	1.18%	6.41%	23.07%	2.88%
Brisbane (inc GC)	-0.04%	0.04%	0.56%	1.83%	3.51%	1.87%	2.59%	8.65%	1.83%
Adelaide	0.01%	-0.05%	0.32%	0.61%	0.99%	1.72%	5.81%	10.84%	0.61%
Perth	0.01%	0.25%	0.48%	0.91%	-3.16%	-10.65%	-11.07%	-16.02%	0.91%
5 City Aggregate	0.03%	0.05%	0.74%	2.91%	9.24%	-0.21%	1.19%	14.01%	2.91%
Below Cities Updated Monthly									
Darwin			1.98%	0.65%	-5.42%	-14.77%			0.65%
Canberra			0.61%	1.65%	4.75%	10.68%			1.65%
Hobart			-0.21%	1.45%	4.16%	11.68%			1.45%
Brisbane (exc GC)			0.58%	1.62%	3.14%	0.57%			1.62%

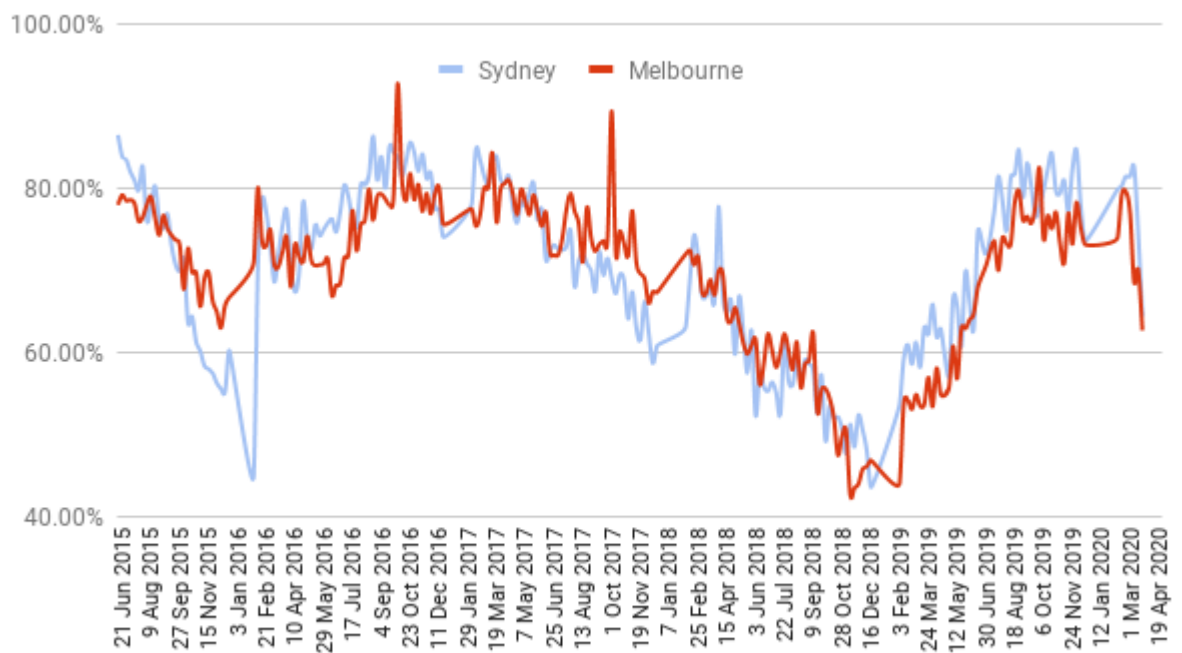
Source: CoreLogic, updated daily, 1st April 2020

Change From Recent Peak

Change From Peak	Today	Peak	Peak Date	Days	% Change
Sydney	173.4	173.4	1 Apr 2020	0	0.00%
Melbourne	158.0	158.2	30 Mar 2020	2	-0.15%
Brisbane (inc GC)	111.0	111.0	30 Mar 2020	2	-0.08%
Adelaide	117.6	117.7	30 Mar 2020	2	-0.10%
Perth	86.6	97.2	28 Apr 2018	704	-10.85%
5 capital city	145.0	145.5	3 Mar 2018	760	-0.38%

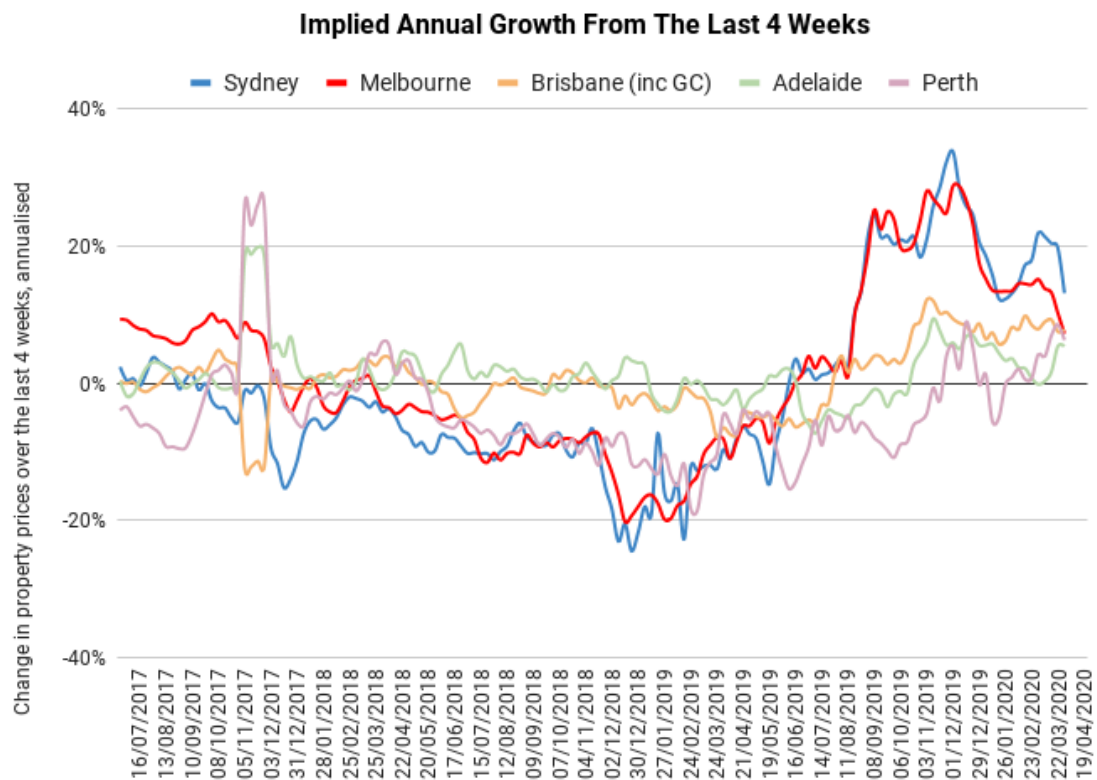
Source: CoreLogic Index, updated daily, 1st April 2020

Auction Clearance Rates



Updated weekly, on Monday following Saturday's auctions.

Property Price Momentum

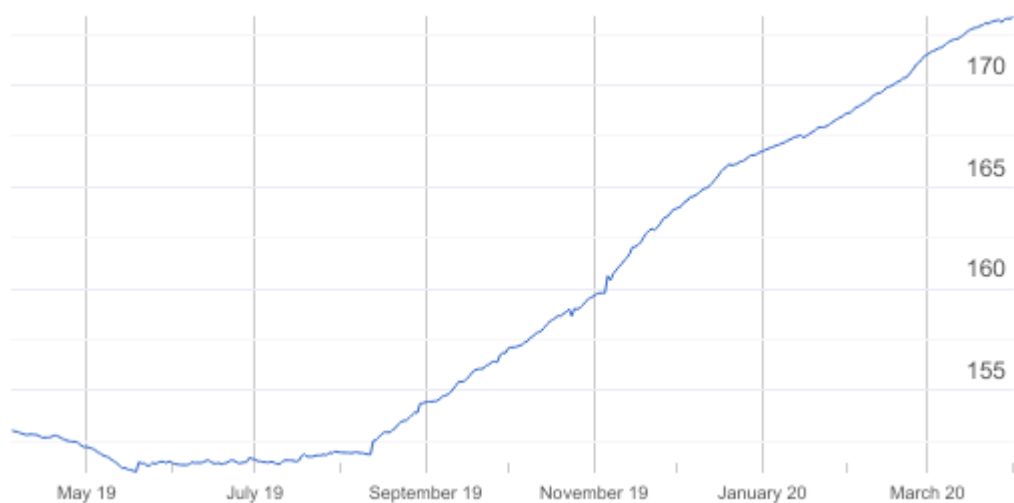


Updated weekly

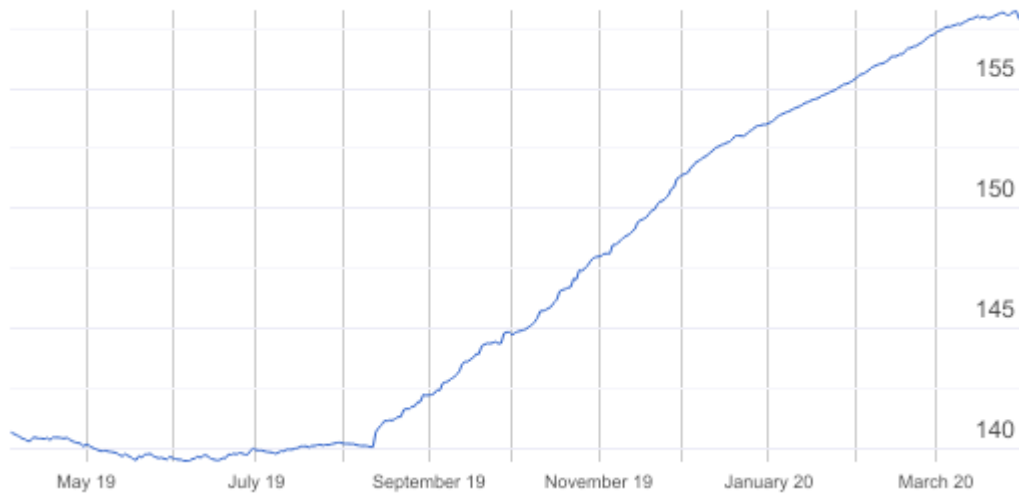
Capital City Property Prices (CoreLogic Indices)

All charts contain the CoreLogic Price Index on the y-axis.

Sydney



Melbourne



Brisbane inc GC



Adelaide



Perth

