Sustainable Population Australia

Briefing Note

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The Housing Crisis is a Population Growth Crisis

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Key points

- Australia is facing a crisis in the affordability and quality of housing which is leading to increased inequality and homelessness, threatening to shatter the social contract.
- It is demand growth rather than supply constraints that has pushed up housing prices.
- The connection between population growth – driven by high immigration – and high housing inflation is often ignored or denied in political circles but is accepted as an undeniable fact by almost everyone knowledgeable about the property industry.
- Following the lull during the pandemic, the Albanese government has slammed its foot on the immigration accelerator, leading to record population growth and consequent housing stress.
- An accumulation of ill-advised policy measures (e.g., negative gearing, reduction in capital gains tax, and first home buyer grants) have combined with accelerated population growth to create a perfect housing storm.
- Increasing urban sprawl and densification due to population growth are causing negative environmental impacts such as habitat and biodiversity loss, urban heat island effect and increased greenhouse gas emissions from construction.
- The solution to the housing crisis is multi-faceted. It must include a combination of tax reform, regulation, investment in public housing and a sustainable population policy that will contribute to demand management.
- A lower net migration level is needed to slow growth and stabilise population size. Even an optimally regulated market will not prevent housing inflation in the face of endless population growth.
- Lower, well-targeted immigration will not cause intractable skills shortages or unmanageable population ageing, but will reduce housing stress and inequality, and improve environmental amenity.

Housing is a right – not a luxury

Globally we are living in a housing emergency, where house prices are outpacing household incomes across almost all OECD countries. In Australia, the housing inflation is particularly severe, with Sydney and Melbourne making the top 10 most expensive cities in the world. Younger generations of Australians are being financially excluded from home ownership, while renting is becoming more expensive and more difficult to secure. In the words of one news report, "The rental crisis in Australia is so bad it's become the real estate version of *The Hunger Games*."

Thirty years ago, Australia had relatively high home ownership and low household debt compared with other developed countries. It now has among the worst housing affordability and household debt levels in the OECD, rivalled by Canada, which has similarly high immigration-driven population growth.

Despite the low quality of new housing built in Australia compared to international standards, Australians are paying more for it than elsewhere. In 2021, over 640 000 Australian households were living in housing stress conditions (low income households who are homeless or paying more than 30% of their income on housing).

Shelter is a human right. The insidious reframing of housing as a financial asset rather than a public necessity is shattering Australia's social contract which promised dignity and security for all. It is driving widening inequalities of wealth and personal autonomy. We have allowed these trends to intensify to the point where social cohesion is under severe strain.

Adding fuel to the fire, the Albanese government has reinstated and even exceeded pre-pandemic levels of population growth. This financial year, net overseas migration (NOM) will swell Australia's population by 350,000, far surpassing all previous records. Government data (as analysed in *The Australian*) indicate Australia will receive an extra 650,000 migrants this financial year and next, which will drive a 900,000 surge in total population.

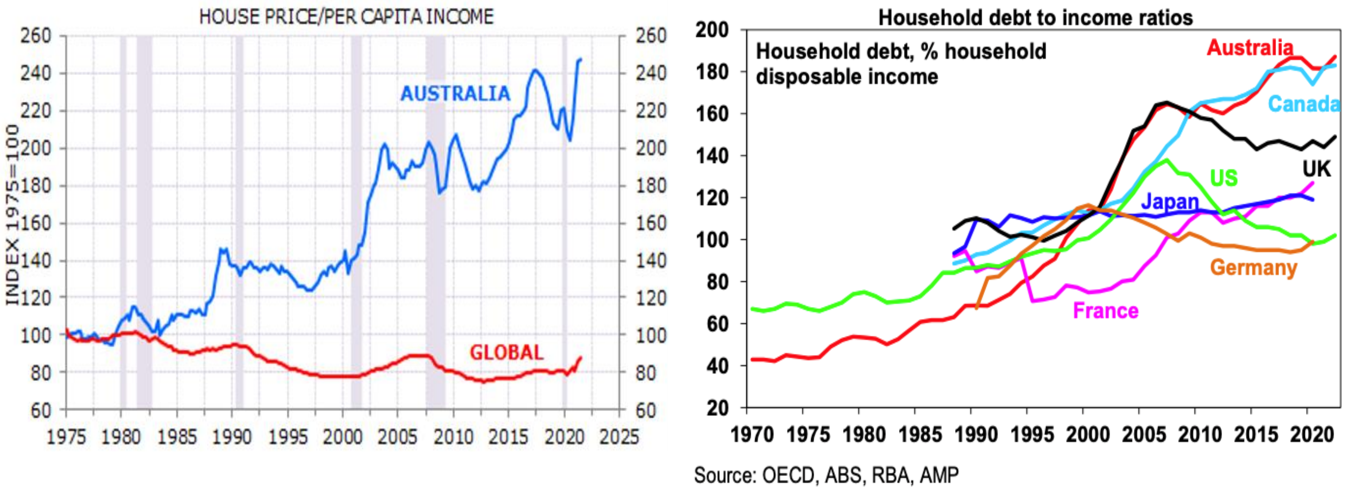
Meanwhile approval of new dwellings nationally is in decline. The National Housing Finance & Investment Corporation forecasts that demand will exceed supply by 124,100 dwellings over the five years to 2028, and states that '*Returning migration at a time of low vacancy rates is likely to result in upward pressure on rents'.*

CoreLogic reports annual rental growth in each of the major capital cities is at double-digit levels and the vacancy rate across the combined capitals fell to a new record low of 0.9% in March. Across the combined capitals this is the longest stretch of continuous rental price growth on record. Essential workers are being priced out of the rental market. Homelessness is rapidly increasing and international students are living in tents.

The government's commitment to returning to the Big Australia population growth trajectory was confirmed in the Centre for Population 2022 Population Statement. This is despite a December 2021 report in the *The Daily Telegraph* suggesting, "Anthony Albanese has signalled Labor won't back the return of mass immigration ahead of next year's election." Albanese was quoted as saying, "migration has always played an important role in the economy and will continue to in the recovery, but it's important we take this opportunity to get the mix right." This intention hardly squares with the subsequent actions of the new Albanese government to increase immigration to record levels.

Figure 1. Australia is exceptional in the extent of its housing crisis. A: Change in ratio of house prices to income, indexed from 1975. Periods of economic recession are shaded. [Source: Kohler (2022)](#).
B: Household debt as percent of disposable income. Australian household debt leads the pack at around 180%. [Source: Oliver (2022)](#)

A **B**



Population growth feeds the speculative frenzy

Australia's housing crisis is an outcome of government policy. Federal politicians cry crocodile tears about housing stress, while consistently acting to drive prices up.

House prices started rising much faster than incomes after the introduction of the capital gains tax discount (CGT) by the Howard government in 1999.This made housing investment much more attractive, diverting capital from productive investments into the money-pit of inflating the price of already-existing assets. Speculative bubbles feed on themselves, as higher-than-par returns on investment attract more investors who bid up the price, meaning even bigger capital gains. Investors inevitably displace first-home buyers, lowering home ownership.

High immigration since 2005 has further fuelled the spiral. It is the rate of growth, more than the size or density of the population, that puts upward pressure on prices.

Australia has had one of the highest rates of population growth in the OECD in the 21st century, due to world-leading immigration levels. Humanitarian migration is a very small component of Australia's migration program. Most migration into Australia is 'economic migration' which exists to serve a narrow set of economic interests of big business at the expense of ordinary Australians. Wage suppression and real estate inflation are two primary goals of the business lobby's push for high immigration.

This rapid population increase adds to urban sprawl and densification, feeds speculation, and reduces the overall affordability of housing. While the cost of new houses at the outer margins of major cities hasn't risen that much, their ever-increasing distance from jobs and services means buyers get less amenity for their money than they used to. Homes in older suburbs look increasingly desirable by comparison and command higher prices as a result. Rezoning to allow medium and high-density developments in older suburbs further pushes up land prices, providing developers and existing home owners with huge windfalls, while new households are forced to downsize or commute further.

The connection between high immigration and high housing inflation is often ignored or denied in political circles but is acknowledged by almost everyone knowledgeable about the property industry: Reserve Bank governor Philip Lowe, the CBA, BIS, AMP and Reserve Bank of New Zealand, Australian Housing and Urban Research Institute (AHURI), the Grattan Institute, the Productivity Commission, MoneyMag, Your Investment Property Magazine, property advisor LongView, property agent Richard Wakelin, economic analyst Alan Kohler, Fairfax economics correspondent Shane Wright, property analyst Michael Yardney, and credit rating agency Moody's.

A 2020 Monash University study found that immigration had added around 1.4% per year to house price rises between 2006 and 2016.

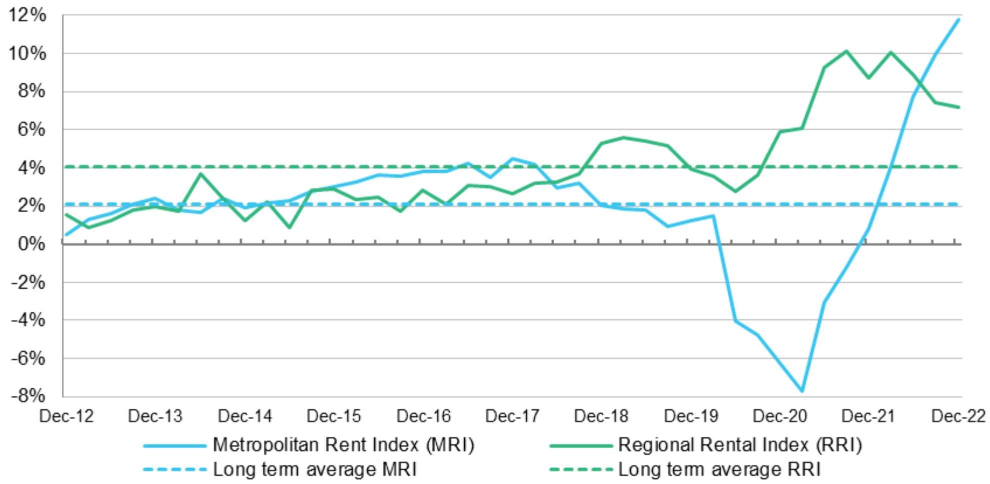
Many commentators have claimed that the rise in house prices during the pandemic, while immigration was very low, proves that population growth has nothing to do with housing unaffordability. This view has been debunked by the observation that household size fell during the pandemic, more than making up for the loss of immigration as a driver of growth in the number of households. The strains of lockdowns, the need to work from home and the opportunity afforded by record low interest rates and a new round of government grants all contributed to this push to move out of shared and family homes. The volume of new mortgage lending almost doubled in 2020, triggering a new price spiral attracting more investors, until interest rate rises in 2022 dampened the market. Without reverting to high immigration, this policy-induced demand spike would have been short-lived.

It is *demand growth*, rather than supply constraints, that have pushed up prices. Withdrawal of housing supply by the short term rental industry such as AirBnb, or by investors leaving properties unoccupied, has contributed to rent increases in some locations, but has had little impact on house prices. Housing construction has not been constrained by supply of land or zoning approvals. As property economist Dr Cameron Murray explains, it suits property developers to claim that planning constraints and red tape cause housing shortages but they typically hold years' worth of approved subdivisions and slow down their development whenever prices falter, to keep the market tight and hot. Likewise, it pays for property developers to invest heavily in lobbying for high immigration.

While house prices rose during the pandemic due to government policies stimulating demand, the exodus of temporary migrants and tree-changers meant rents in metropolitan areas fell. Then house prices started to fall in late 2022 as higher interest rates quelled demand, and a record high influx of immigrants saw rents rise at unprecedented rates. Domain reported capital city rents shot up 17.6% for units and 14.6% for houses in 2022. The Reserve Bank of Australia said *"further large increases in rents [are] expected over coming years as population growth picks up."* Ironically, higher rents are stoking inflation, inducing the Reserve Bank to raise interest rates, preventing many renters becoming home owners and slowing building starts, further tightening the rental market in a vicious cycle.

High rental returns might eventually deliver more build-to-rent investments, but will take considerable time to come online. Knowing how slow the housing supply chain is, the Albanese government's decision to ramp up immigration so abruptly was bound to cause chaos and suffering. Many Australians are wondering, "What were they thinking?"

Figure 2. An immigration-driven rental crisis: Annual percentage change in rents in Victorian rural and metropolitan areas up to mid-2022. Source: Homes Victoria Rental Report, Dec 2022.



When populations grow too fast, people get left behind

The housing crisis has exacerbated the widening divide between the 'haves' and 'have nots' in Australia. Alison Pennington, writing for The Conversation, states that: *"Australia's gold-plated housing system… excludes an ever-larger group of people, for whom housing becomes a rare commodity*." It is younger generations, women over 55, recent migrants and other vulnerable people in the community who are most at risk from housing insecurity.

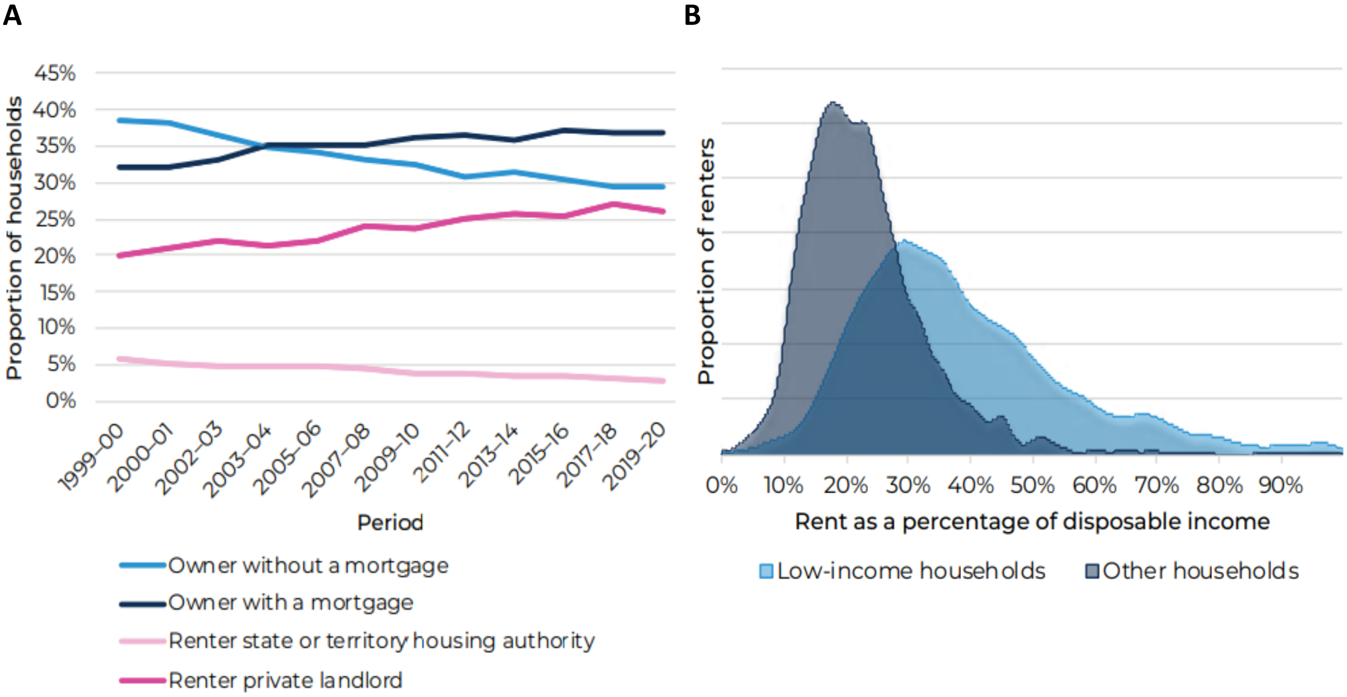
The housing crisis is really several cascading crises:

- *The purchase financing crisis*, preventing people becoming home-owners. Median house prices have gone from three to eight times median household incomes in the space of a few decades. In Sydney now the ratio is over 12. When the amount needed for a deposit rises faster than the average couple's capacity to save, the Great Australian Dream recedes into unreality.
- *The mortgage repayments crisis*, with rising interest rates placing over a million households who have taken the plunge into home ownership in mortgage stress and at risk of having to sell up.
- *The home ownership crisis*, with considerable implications for housing security, adequacy of retirement incomes, and general wellbeing. In international comparisons, Australia is rapidly moving from hero to zero. According to PerCapita, "*The proportion of households living in a home they own outright or with a mortgage in Australia is a full 13% below the OECD average, and falling*."
- *The rental availability crisis*, with job vacancies outnumbering housing vacancies and essential workers unable to find affordable housing accessible to their work.
- *The rental affordability crisis*, as low vacancy rates are the biggest driver of rent increases. Public and social housing has shrunk to 3% of housing, with a waiting list over 200,000. Commonwealth Rent Assistance is a ballooning cost to government while increasingly inadequate for its 1.5 million recipients.
- *The housing quality crisis*, leaving unit purchasers with costly defects, and low-income renters in poorly maintained properties that threaten their health, homes they can't adequately heat or cool, where they aren't allowed pets or personalised touches, and where they lack security of tenure. These issues were glossed over when most people moved on to home ownership, but

when many will be lifelong renters, and increasing proportions of Australian children are raised in rental housing, the health and rights of renters must be prioritised.

- *The homelessness crisis*, presenting formidable barriers to people achieving dignity, security, health and engagement in work and social realms, and representing a catastrophic failure of the social contract. The Australian Homelessness Monitor 2022 revealed that the rate of homelessness is increasing faster than Australia's overall population growth. Increasingly, working families are finding themselves homeless.

Figure 3. A: Changing housing occupancy 2000-2020, showing falling public housing and home ownership, and rising renters and mortgagees. B: Rents are a higher proportion of household income for low income households. Source: PEXA-LongView.



Meanwhile, economists make much of real estate's contribution to wealth, ignoring its contribution to household debt and wealth inequality. By pursuing housing as a store of wealth, we undermine its role in providing shelter, dignity, security, autonomy and community connections. In the words of Reserve Bank Governor Philip Lowe, "*it is arguable that the main impact of higher land prices is not really to increase our national wealth, but to change the distribution of that wealth*."

Wealth inequality has increased much more than income inequality, and land inflation is the main cause. It is recreating a Dickensian dystopia, locking in intergenerational classes of advantage and disadvantage. In 2022, the total wealth of all Australian households was $14.9 trillion. Housing accounted for nearly $10 trillion, twice the value of all other assets. But most Australians would be better off if average house prices were below $400,000 and stable instead of over $800,000 and rising. Spending more of our lifetime earnings on housing does not make us wealthier.

Homelessness is the end of the cascade that starts with too much housing demand. According to the Productivity Commission, "*fundamentally, homelessness is a result of not being able to afford housing*." Fundamentally, homelessness is a market failure. It requires government intervention, to increase non-market supply (public housing) and reduce demand growth (lower immigration levels).

The housing crisis is an ecological crisis

The 2021 *State of the Environment Report* names population growth as a significant factor contributing to Australia's deteriorating environment, mainly through urban sprawl. Currently, there is a conflict of interest between preserving what remains of Australia's natural environmental and meeting the housing needs a growing population. Australia's population is expected to increase by 13.1 million people over the next 40 years to 38.8 million people according to The Intergenerational Report.

Climate change induced extreme weather events will make many existing and proposed neighbourhoods more vulnerable if not entirely unviable. Looking ahead into an increasingly precarious future, the logical approach would be to discontinue building on floodplains and adjacent to fire-prone bush land. However, political disinterest or developer influence means that more flood prone land will be developed for future new housing. It appears little has been learnt from the disasters of the past and present.

Denser cities are hotter cities. The urban heat island effect can raise the temperature several degrees and reduces overnight cooling. Heat waves are already the most lethal of all natural disasters.

Our construction-heavy economy also consumes non-renewable resources and generates greenhouse gases at an unsustainable pace. Construction is responsible for around 18% of Australia's greenhouse gases. By ending population growth, at least a third of those emissions could be avoided.

How to fix the crisis

We need a combination of tax reform, regulation, investment in public housing and a sustainable population policy to reverse housing trends toward regaining affordability. A stable population would have avoided housing becoming unaffordable. However, to remedy the crisis we now find ourselves in, population policy alone is not enough. It must be paired with legislative changes to make the housing market more equitable, and public housing to plug the market failure to provide decent housing for all. But even an optimally regulated market will not prevent housing inflation in the face of endless population growth.

Genuine commitment to affordability

Firstly, government must commit to stabilising house prices. Without rising prices, housing will gradually become more affordable in real terms as wages grow. It is disingenuous of government to claim to be addressing housing unaffordability while implementing policies that ensure strong capital gains in real estate.

Achieving such a commitment is a challenge, when most politicians own investment properties, and when property developers are the biggest donors to political parties. 'State capture' is when those with money and leverage pervert the decisions of supposedly democratic governments to serve their own interests, against the interests of the general public. Whether governments act effectively to resolve the housing crisis is a key test of our democracy.

Demand management is key

Secondly, policies must dampen housing demand. Population stabilisation, through lower immigration levels, is an essential component. A target for net overseas migration should be around 50,000 to 80,000 per year, similar to immigration levels experienced in the 1990s. This is ample to accommodate Australia's refugee intake and to recruit genuinely needed skills, but would take the heat out of housing and rental markets.

Low immigration will not cause intractable skills shortages, since immigration adds more to demand than supply of skills. Nor will it allow population ageing to reach unmanageable levels. These myths are cultivated to persuade Australians to accept stagnant wages and exorbitant, low-quality housing.

Unless public housing were to absorb all the increase in household numbers, the trend toward lower affordability and home ownership can't be reversed until population growth is stemmed.

However, it is also necessary to remove the incentives investors have to outbid prospective homeowners. PerCapita's *Housing affordability in Australia* report observed that, wherever unrestricted negative gearing is allowed, home ownership rates have stagnated or declined. The same report demonstrates that the introduction of capital gains tax discount accelerated housing inflation in Australia. Both tax provisions should be wound back.

As real estate analysts Cameron Murray and Josh Ryan-Collins explain, "Australia's unusually generous tax concessions for investors helped [push up prices and push out homeowners]. They are granted discounts on capital gains tax, while being able to deduct the full costs of operating their properties, (including interest costs) against income from any source. Where the deductions exceed rental income, the process is known as negative gearing." According to a Grattan Institute report, these tax concessions cost the government $11.7 bn in 2015. These concessions overwhelmingly benefit the richest households.

Foreign investment in all residential real estate should be banned. Canada has recently instituted a ban on house purchases by non-residents. Foreign investment only serves to bid up prices and displace prospective homeowners. We do not need foreign capital to build rental stock. It is well known that restrictions on foreigners buying existing properties are easily circumvented. Anecdotally, foreign buyers are more likely to leave properties vacant, removing housing stock from the market. Australia's real estate market has become a magnet for international money laundering.

Supply needs direct government investment

Property developers do not flood the market with new supply to the extent that prices fall. On the contrary, they leave properties vacant and approved blocks undeveloped to drip-feed supply, keeping vacancies low and rents rising.

The only way to ensure additional affordable housing in the places it is needed is through renewed investment in public housing. Public housing directly addresses homelessness and housing stress among the most vulnerable, without needing to shift the dial on the whole property market.

The Albanese government's $10 bn *Housing Australia Future Fund* should be used to build or purchase housing. The rental returns can be reinvested in building more housing. The current proposal to invest the money in financial markets, and build only with the dividends, is irrational and risky. Investing the principal in public housing provides a more secure asset portfolio with guaranteed returns. A more rapid recycling of funds can be achieved by allowing rent-to-buy schemes if tenants' circumstances improve and they are able to start paying down the capital.

According to AHURI, Australia's social housing stock stands at 348,000 units. It needs 217,000 units to clear the current social housing waiting list and a further 550,000 to meet growing demand over the next fifteen years. The current proposal, to invest only $500 million per year from the *Housing Australia Future Fund* earnings and delivering only 30,000 homes over five years, will fall woefully short. Investing the whole $10 bn capital now in public housing would make a good start.

Subsidies are generally counterproductive

To date, government initiatives have tended to take the form of subsidies, including first-home-buyer grants, the National Rental Affordability Scheme (currently being phased out), the HomeBuilder grant and others. These add fuel to the fire, as the money poured in pushes up house prices and rents. Allowing first-home buyers to access superannuation for a deposit has had similar effects, with the resulting higher prices eliminating the benefit to first-home buyers.

As the Productivity Commission says, "*The $16 billion governments spend each year on direct housing assistance could achieve more if it was better targeted to people in greatest need. The nearly $3 billion given to first home buyers works against improving affordability. This money would be better spent preventing homelessness*."

Rental subsidies also drive prices up at the bottom end of the rental market. They represent poor value for money compared with providing social housing, as the government has no asset to show for its investment. They currently cost government close to $5 bn. However, with 1.5 million households currently depending on rental assistance, transitioning them to public housing would be a long-term project. More importantly, both the number of recipients and the amount of supplement they need are growing rapidly due to the housing crisis. The only effective way to stem this growing liability is to slow population growth and stabilise house prices.

Stop doing harm

As the old adage goes, the definition of stupidity is to keep doing the same thing and expect a different result.

Government interventions to affect private supply of affordable housing have been costly failures. Government interventions to lower the price through grants and subsidies have pushed prices up. Government policies to ramp up immigration have catastrophically intensified the housing crisis.

It will be a long slow road back toward the Australian Dream. That journey cannot begin until population growth is greatly reduced.

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