



**Submission to the Inquiry into
the worsening rental crisis in Australia**

by

Sustainable Population Australia

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Sustainable Population Australia (SPA) is an independent not-for-profit organisation seeking to protect the environment and quality of life by ending population growth in Australia and globally, while rejecting racism and involuntary population control. SPA is an environmental advocacy organisation, not a political party.

This year, SPA commissioned a report [“The Housing Crisis is a Population Growth Crisis.”](#) The report demonstrates Australia’s escalating housing crisis is a crisis of housing demand, more than housing supply. This nine page report collates evidence that the current situation has been driven primarily by policies affecting housing demand.

Solutions must include increasing supply of public housing, to redress the excess demand already incurred, but cannot stabilise or reverse housing unaffordability without stemming growth in demand. In Australia, that means reducing population growth, alongside reducing incentives for speculative investment in housing for capital gains. The Albanese government appears to be committed to a ‘Big Australia’ policy of rapid population growth, which will only serve to exacerbate the existing rental affordability crisis.

Our submission to the inquiry extracts parts of this report that are relevant to the rental crisis, in addition to more recent information in the media regarding further pressures on the housing sector as a result of surging demand arising from tertiary migration.

The report provides responses to all the terms of references to this inquiry, with particular relevance to:

- e. factors impacting supply and demand of affordable rentals; and
- g. the impact of government programs on the rental sector.

We strongly recommend reading the [full report](#) which can be accessed by the below link.

<https://population.org.au/wp-content/uploads/2023/04/housing-crisis-and-population-briefing-note-final1.pdf>

Below are the key findings from the report that are particularly relevant to the inquiry.

- 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. While homelessness has always existed, it increasingly affects families with children, and essential workers who are unable to find accommodation near their work. Recent migrants are also experiencing extreme stress and crowding of rental accommodation.
- It is demand growth rather than supply constraints that has pushed up housing prices.

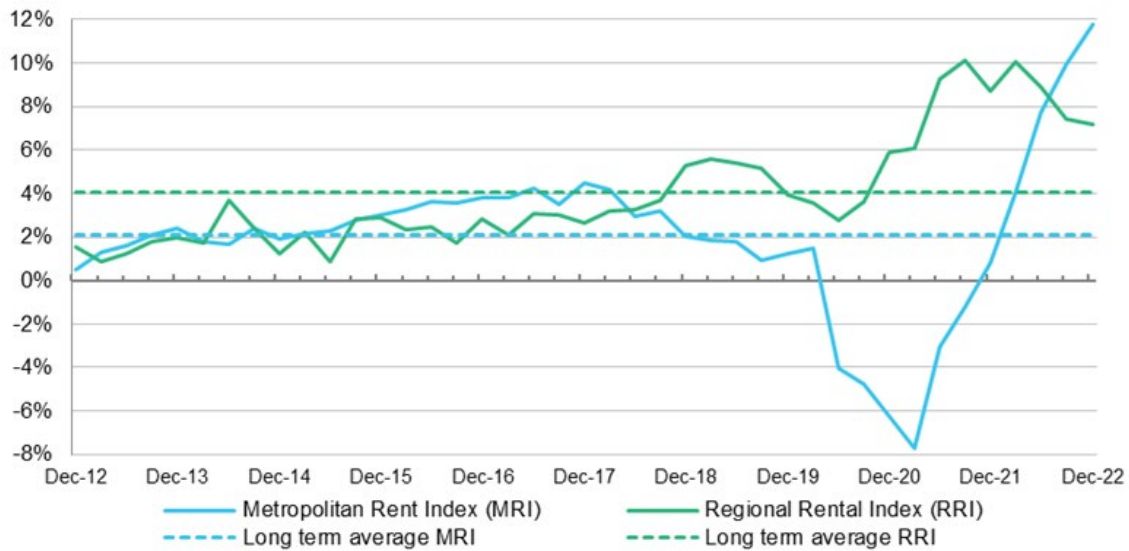
- The connection between population growth – driven by high immigration – and high housing inflation is often ignored or denied in political circles but is accepted as an undeniable fact by almost everyone knowledgeable about the property industry.
- Following the lull during the pandemic, the Albanese government has slammed its foot on the immigration accelerator, leading to record population growth and consequent record rates of rent inflation.
- 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.
- 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.

Further information.

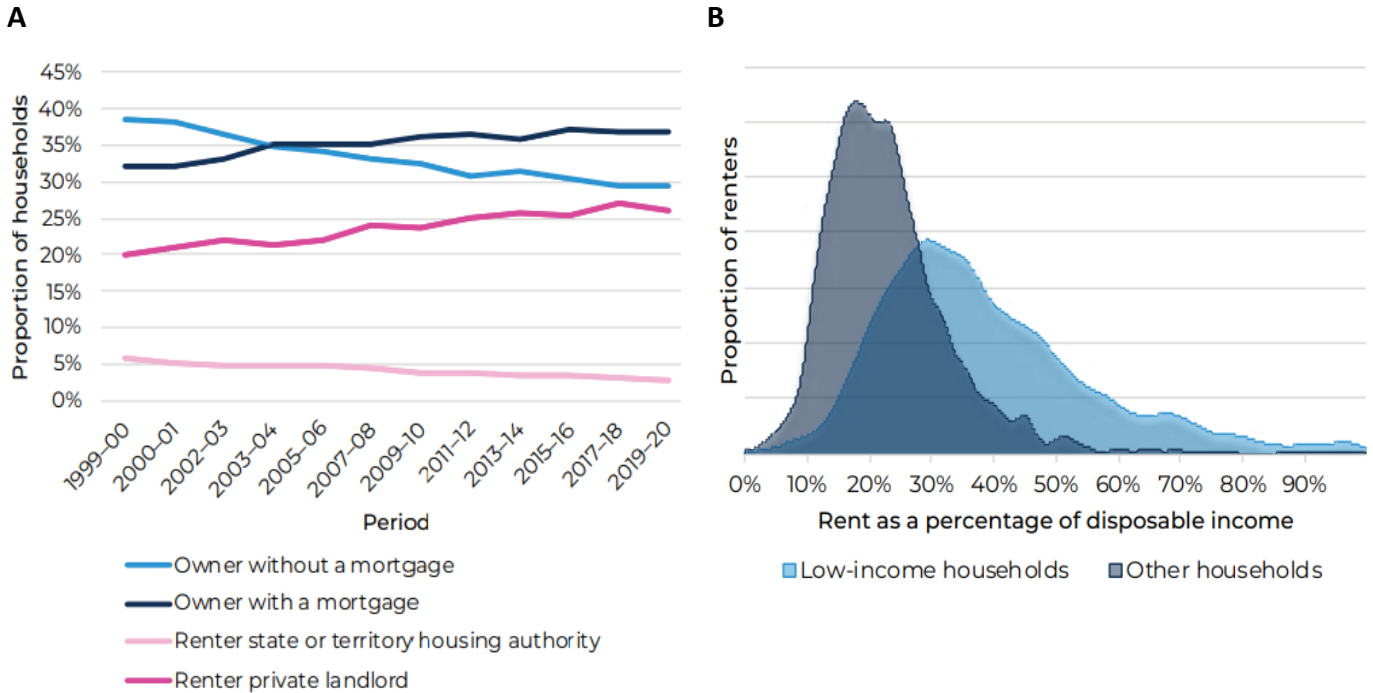
- The housing crisis is really several cascading crises: The [purchase financing crisis](#); the [mortgage repayments](#) crisis; the [home ownership](#) crisis, the rental availability crisis, with [job vacancies outnumbering housing vacancies](#) and [essential workers](#) unable to find affordable housing accessible to their work; and the [rental affordability crisis](#), as low vacancy rates are the biggest driver of rent increases.
- Many younger Australians are being 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.”
- 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).
- 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 over the two

years from 1 July 2022 to 30 June 2024, 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](#). Even essential workers are now being [priced out](#) of the rental market.
- The Covid19 pandemic caused unprecedented volatility in the housing market, which was exacerbated by government responses. 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, while a record high influx of immigrants [saw rents rise at unprecedented rates](#). Rising rents in turn put upward pressure on house prices, so the downturn due to higher interest rates was short-lived. [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 only served to exacerbate this vicious cycle.
- An immigration-driven rental crisis: the graph below details annual percentage change in rents in Victorian rural and metropolitan areas up to mid-2022. Source: [Homes Victoria Rental Report](#), Dec 2022. The chart clearly shows that rents in Melbourne fell during the pandemic as international students and migrant workers who lost their income departed. A considerable number of other Melbourne residents moved away from the city interstate or to regional centres, causing regional rents to increase. In contrast, after immigration resumed, city rents rapidly escalated. In other words, these dramatic shifts were due to changes in demand, not changes in supply.

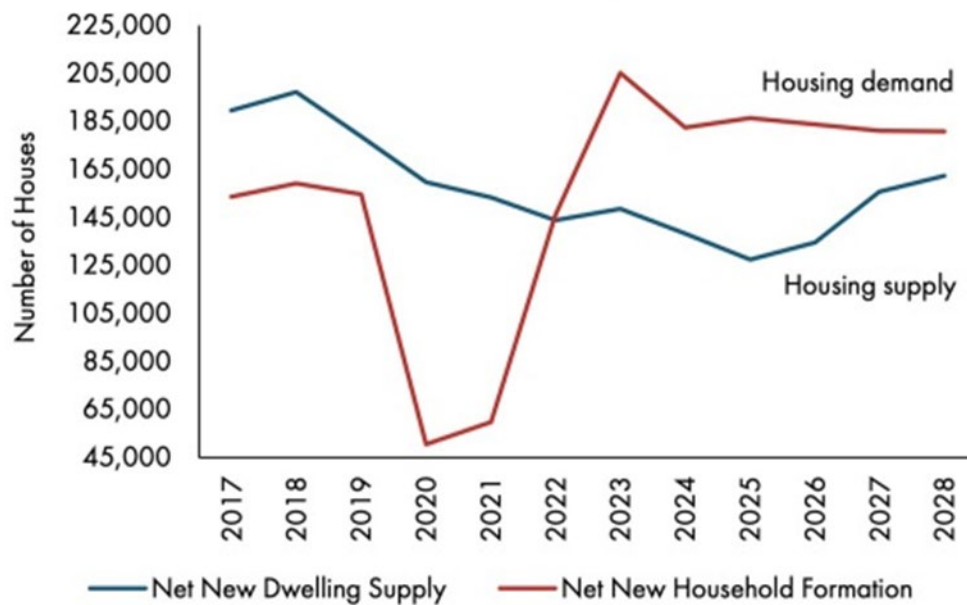


- [Public and social housing](#) has shrunk to 3% of housing, with a waiting list of over 200,000 households. Commonwealth Rent Assistance is a ballooning cost to government while [increasingly inadequate](#) for its 1.5 million recipients.
- [Housing quality](#) for renters is yet another symptom of the national housing crisis. This leaves 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 at a time when most people moved on to home ownership after only a short period as renters, but now that many will be lifelong renters, and increasing proportions of Australian children are raised in rental housing, the health and rights of renters can no longer be dismissed as temporary hardships.
- The below graphs show 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](#).



- 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 Australian Homelessness Monitor 2022](#) revealed that the rate of homelessness is increasing faster than Australia’s overall population growth.
- A [recent report by the Institute of Public Affairs](#) (IPA) had found that international students took up 70 per cent of new housing units in the 2022-23 financial year. There are now 610,055 education visa holders in Australia, fully recovering and surpassing pre-pandemic numbers with new enrolments at record levels. In addition, [foreign graduates](#) have been allowed to stay in Australia in much larger numbers. Daniel Wild, Deputy Executive Director of the IPA, said: “Every Australian should have the opportunity to own their own home, yet the surge in demand from unplanned migration growth will make housing even less affordable for both Australians and new migrants alike.”
- The below graph was sourced from the IPA report. It clearly shows the housing shortfall is mainly due to excess demand from high immigration.

Chart 1: Housing supply shortfall due to migration expansion



Addressing the Terms of Reference

e. Factors impacting supply and demand of affordable rentals

Housing demand is driven by an increase in the number of households. For the most part, this reflects population growth. However, changes in household size adjust the relationship between household number and total population. This was evident during the pandemic, due to the factors discussed above, but is normally a small influence.

New migrants add to rental demand, while simultaneously adding to competition for house and land purchases, pushing prices up.

While it is [argued](#) that new migrants add to the labour force for building new housing, they never add more to supply than demand since each housing unit takes several person-years of labour. Even if migrants were all construction workers, it would take years for them to house themselves, as well as creating the extra public and commercial infrastructure needed to serve the extra population, before making a contribution to Australia's housing shortage.

Housing supply is largely controlled by developers, who choose to [drip-feed](#) stock to ensure the market remains tight and prices keep rising, while holding large parcels of land already approved for development (land banking). There is no evidence that more government efforts for rezoning or reducing 'red tape' will increase the rate of housing construction, since developers already have access to land they choose not to develop yet.

Other than new 'build-to-rent' projects, property investors do not add to housing supply, they only shift the distribution between owner-occupied and rented. As property economist [Cameron Murray explained](#), they increase the rental stock only by denying prospective home-owners the chance to move from renting to owning. Economists linked to the property investment industry have been claiming that any measure that lowers profitability for landlords (such as limiting negative gearing) will reduce rental availability. This is not true, as any change in supply is balance by an equal change in demand. In an attempt to deny the impact of immigration on rents, [SBS reporter Anne Flaherty](#), an economist at property data company PropTrack, saying "Data shows the number of properties available for renters has decreased because property investors are selling to owner-occupiers, Flaherty said, adding she thinks it's the major reason renters are facing tough times." This is an absurd claim, since most of the new owner-occupiers would otherwise be renters.

Public housing is the surest way to increase supply of affordable rentals. Only public housing can be insulated from the market forces pushing prices up. As long as population growth persists, prices will rise in more desirable locations, increasing disparity in living standards between high-income and low-income people. While government should aim for high home ownership in the longer term, there is no medium-term solution to housing stress and homelessness other than increasing public housing.

There are therefore two avenues through which government can improve availability of affordable rental. They can lower demand for housing by limiting population growth (i.e. lowering immigration) and they can build public housing. Both strategies are needed in tandem.

g. The impact of government programs on the rental sector

In the past three decades, federal government interventions have consistently worsened housing affordability. It was the capital gains tax concession, introduced in 1999, that initiated the vicious cycle of housing investment driving prices up, in turn driving more investment. Rents did not initially follow the rise in house prices, but started to climb after immigration rates were elevated from 2005.

The government response has been first-home-buyer subsidies, which have been repeatedly demonstrated to push prices up further, cancelling out the benefit for first home buyers and adding to the housing investment frenzy.

During the early months of the Covid19 pandemic, the government acted quickly to prevent house prices from falling in response to the exodus of migrants. More first-home-buyer grants, lower interest rates and access to superannuation for home deposits. These measures were overkill, not merely stemming the fall in prices but causing rapid price escalation.

Meanwhile, rents in the major cities remained reduced due to lower demand from migrants. However, the slack in the housing market was taken up by first-home buyers moving out of shared housing or parental homes to take advantage of these stimulus measures. The result

was a significant reduction in average household size, rather than an increase in vacancies. This meant that, when migrants returned in 2022, they were not back-filling the vacancies they had left behind, as that excess had already been absorbed. Record low vacancy rates and record high rent increases ensued. This rental crisis is a direct result of government policies intended to stimulate the housing market (i.e. intended to increase housing unaffordability).

The Albanese government now proposes to boost housing supply by subsidising developers to build-for-rent, through its \$10 bn [Housing Australia Future Fund](#). This approach has already been tried and failed. The [National Rental Affordability Scheme](#) is currently being phased out as most of the government money given to developers has not been passed on to renters, and the marginally lower than market rents are still unaffordable for most households in housing stress.

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.”

In summary, 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 failure to constrain foreign purchase of Australian properties has added unnecessary demand to the market. Government policies to [ramp up immigration](#) have catastrophically intensified the rental crisis.

The federal government needs to choose decisively between pandering to the property speculation industry or helping ease housing stress. These two interests oppose each other – they can’t both be satisfied simultaneously. If the government wants to improve rental affordability, it must act to lower housing demand and it must welcome stable or gradually falling land values.

Recommendations:

- The government must make a genuine commitment to affordability by [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.
- 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.

- The only way to ensure additional affordable housing in the places it is needed is through renewed investment in public housing. The full \$10 billion earmarked for the *Housing Australia Future Fund* should be spent directly on public housing, not speculated on risky financial markets and not used to subsidise private build-to-rent projects. Public housing directly addresses homelessness and housing stress among the most vulnerable, without needing to shift the dial on the whole property market, as the build-to-rent approach must do. However, 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.
- [Rental subsidies](#) 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.
- [Foreign investment](#) in all real estate should be banned. 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](#). China, like many other countries, does not allow foreigners to own land, and Canada has moved to end it. A complete ban on foreign purchase of Australian land would be the quickest contribution to stabilising land prices.