

Submission for the National Housing and Homelessness Plan

Dear Minister Collins,

The development of the National Housing and Homelessness Plan (the Plan) comes at a time when housing for both renters and potential purchasers is by historical comparison extremely expensive. This is almost exclusively due to failures by governments on both the demand and supply side. These issues were extensively reviewed in reports released in 2022 by the Standing Committee for Tax and Revenue and the Productivity Commission. The primary problem is not a lack of understanding, it is the lack of resolve by governments to confront the obvious issues.

As a starting point to this brief submission the key background points can be summarised as follows:

- Purchasing and renting residential property in Australia is amongst the most expensive in the world
- Australia has [less housing per capita but is building new dwellings much faster](#) than peer nations
- Australia has a [larger percentage of the population employed in construction](#) than peer nations
- Australia's construction industry is effectively fully employed on property and infrastructure projects
- Land zoning and construction of housing in Australia are highly regulated with little regard given to the costs imposed by regulation and the impact this has, particularly on low income households
- Current population growth is extremely high compared to peer nations and Australian experience
- The [current rental vacancy rate](#) is extremely low compared to peer nations and Australian experience
- Australia's undersupply of residential property [started accumulating in 2007](#), then rapidly accelerated with the extraordinary influx of migrants when Covid travel restrictions were removed
- When the Australian population declined during the Covid pandemic, the [cost of renting briefly declined](#)
- Following the recent population surge, the [median rent has soared](#) and the [rental vacancy rate has plummeted](#)

The distinction between rental affordability and purchasing affordability

A common misconception is that housing affordability is just one issue. However, the ability of low income Australians to afford a rental property and the ability of medium income Australians to afford to purchase a property are two different problems. The solutions for each are somewhat different, although often interrelated. The Plan should start with the lack of affordable rental properties as the key issue. Housing is first and foremost a place to live and second, an investment opportunity. Low income Australians do not have an alternative to housing as a place to live whereas wealthy Australians have numerous alternative investment opportunities. With this background in mind, here are the required solutions.

Inbound migration must be slashed

Australia's construction industry cannot keep up with the demand for housing and infrastructure that the current extraordinarily high levels of migration require. There are two ways to address this obvious issue; either massively increase the number of people working in the sector or substantially reduce migration levels. Importing hundreds of thousands of construction workers (along with all the associated manufacturing, planning and development workers) is neither feasible nor desirable. Training sufficient additional workers is also unrealistic, as it would take many years and would require redeploying workers from other sectors as unemployment is currently low.

Australians [do not support large population growth](#) and the problems it brings. Frustratingly, the Federal Government has since 2007 forced large population growth onto its citizens and refuses to acknowledge the many issues it causes.

Spurious arguments such as a skills shortage, an ageing population and national defence are used to justify the predisposition for a “Big Australia” sought by vested interests.

To allow the undersupply of housing to be corrected, an excess of housing completions relative to population growth is required. The more migration is cut, the faster the deficit in housing supply will be rectified. Given the severe shortage of rental properties, migration should be restricted to those expected to contribute disproportionately to the tax base. A higher minimum income test should be imposed, at \$150,000 per year, to ensure that only highly skilled migrants are arriving. Student visas should be allocated on a “one out, one in” basis with students warned that there are limited prospects for permanent residency after their studies are completed. Family migration should be limited to spouses and children, with the sponsoring of extended family members discontinued.

The pretence that the housing shortage can be solely addressed with supply measures alone requires a deliberate ignorance of the basic facts. Relaxing zoning restrictions will allow more greenfield blocks to be created. However, as the construction industry is fully employed, many owners of newly created blocks will be unable to find builders. Unless the Plan is for the owners of new blocks to live in tents or caravans, supply side measures alone are insufficient. Net migration must be capped at 150,000 for 5-10 years to allow the housing stock to catch up to demand. A detailed explanation of the basic maths supporting this recommendation is included in the Appendix.

Supply side reforms

The recent efforts to encourage supply side reforms are a step in the right direction. Australian’s zoning and planning systems are unnecessarily complex, slow and costly. The cost issues are dealt with in the next section on tax reform. The introduction of incentives for State Governments is a helpful way to encourage processes to be streamlined. Additional measures should include:

- Widespread rezoning of land in inner ring suburbs for high density units, particularly along transport corridors
- Widespread rezoning of land in middle ring suburbs for townhouses and medium density units, with high density near key infrastructure such as train stations and shopping districts
- Widespread rezoning of land in fringe suburbs for residential construction
- Increased flexibility for the construction of granny flats, boarding houses, demountable/modular buildings, caravan parks and other affordable housing options
- Mandated maximum timeframes for government approvals, with governments required to pay compensation when timeframes are exceeded or when permits are incorrectly denied
- A re-evaluation of amenity requirements to assess whether the additional costs are necessities or luxuries
- Reduced amenity requirements and accelerated approvals for office to residential conversions

Tax reform

For brevity and given several government reviews in this area over the last decade, the recommendations are;

- Eliminate stamp duty and development levies, replacing them with land tax
- Lower and equalise the income tax rates across personal, company and trust income
- Treat all income equally, applying the same tax rate for work income, interest/rent income and capital gains
- Broaden and increase the GST to cover the reduced revenue from income tax cuts
- Reduce federal government outward transfers to align with lower income tax and higher GST revenue



These changes will boost productivity and incomes. Land tax has multiple benefits including; encouraging land to be developed to its highest use, encouraging people to move to properties of the right size and in the preferred location for their current life stage, it is a more stable revenue source than stamp duty and development levies, and it is the only wealth tax that is difficult to avoid. Lowering income taxes and equalising the treatment of income would greatly reduce the incentive to negatively gear property investments and to overinvest in a primary residence. The elimination of development levies would make new homes substantially cheaper whilst the elimination of stamp duty will significantly reduce the upfront cost of purchasing.

Social and key worker housing

The primary objective of the Plan should be to ensure all Australians have access to affordable housing. As the construction industry is fully employed, governments building social housing are bidding against the private sector for scarce resources and are pushing up the cost of construction. Key worker housing is merely a preference scheme for providing reduced cost housing for favoured employee types. All Australians, particularly those with low incomes, should have access to affordable housing that the above measures to reduce demand and increase supply would bring.

Shared equity and debt guarantee schemes

There is a strong temptation for governments to intervene and offer financial “solutions” to potential buyers who cannot afford to buy a home, instead of implementing the requisite changes to make housing affordable. Shared equity schemes involve taxpayer funds being invested in residential property, often with higher risk and lower return potential than other investment options. If house prices decline, taxpayers bear the losses. Similarly, if governments guarantee the debts of potential homebuyers, taxpayers must cover the cost when some borrowers inevitably default.

These schemes encourage potential homeowners to save less, borrow more and buy more expensive properties. They can trap borrowers in homes and loans that are not suitable if their work, family or financial circumstances change.

Rent controls

One of the few topics on which almost all economists agree is that rent controls ultimately make renting more expensive. Many cities and countries have implemented various schemes with none demonstrating positive long term impacts but most demonstrating significant negative consequences in the medium and long term. Landlords respond to below market rent increases by withholding new rental supply and by failing to maintain the quality of the existing rental stock. In Sweden, rent controls have led to [a nine year wait list for rent controlled apartments](#). In the US, it is common for landlords of rent controlled properties to allow them to deteriorate to encourage tenants to vacate. Once the property is vacant, it can be upgraded, with new tenants paying considerably higher rent.

Final comments

The lack of affordable housing is almost exclusively due to poor government policies across federal, state and local governments. There is no single reform that can rectify all the poor policies that have made Australia a global leader in unaffordable housing, but slashing inbound migration is an urgent and necessary step. The recommendations outlined above will greatly assist all Australians to have access to affordable rental properties in the long term. The recommendations will also benefit those looking to purchase a property, provided they have adequate income and savings.

Written by [REDACTED] for Narrow Road Capital on September 21, 2023.

Appendix: Basic housing maths

Population growth

Over the twelve months to 31 March 2023, the ABS estimates that the [Australian resident population](#) increased by 563,200 people. This comprises net overseas migration of 454,400 and natural increase (births minus deaths) of 108,800. There is a strong upward trend for migration with net overseas migration of 152,200 for the most recent quarter, up from 75,400 in the quarter ending 30 June 2022.

The return of international students is unlikely to be fully captured in the resident population data above. The estimated [net increase in international students](#) for the year to 30 June 2023 is 139,800. The [ABS methodology](#) notes there can be a lag of up to 16 months in determining whether an arrival is treated as temporary or permanent.

Considering the strong trend of increasing net migration as well as the return of international students and other visa holders, the growth in the population requiring housing can be estimated to be at least 600,000 per annum. Depending on the assumptions adopted, an estimate of up to 750,000 is possible. For the calculations that follow, a conservative estimate of 600,000 is used.

Housing stock

In the March 2023 quarter, [housing starts](#) were 46,546 on a seasonally adjusted basis or 43,701 on a trend basis. Using 45,000 starts per quarter equates to 180,000 per annum. More recent data on [housing approvals](#) is slightly lower at around 13,500 per month, which equates to 162,000 new dwellings per annum. [Historical data](#) has housing demolitions averaging around 10% of housing approvals. Altogether, around 160,000 net new dwellings are added per annum, but this is trending down.

From a developer's perspective, building new housing is currently less profitable than it was before the Covid pandemic. House prices have fallen since the RBA started increasing the Cash Rate. The cost of labour, materials and debt have all increased. Many developers have become insolvent due to unexpected cost increases, driven by Covid shutdowns and government stimulus measures for housing, which their fixed price contracts did not allow for.

The demand/supply gap

Dividing the estimated annual population growth of 600,000 by the [average 2.5 residents per household](#) creates demand for 240,000 net new dwellings per annum. However, the current rate of net additions is approximately 160,000 leaving an estimated shortfall of 80,000 dwellings per annum. If the upward trend in migration and downward trend in approvals continue, the shortfall will be materially higher.

The shortfall implies excess population growth of 200,000 per annum, which is just under half of the current net migration level. Reducing net migration levels to around 250,000 per annum would merely preserve the status quo of rent and purchase prices being amongst the most expensive in the world. A much larger reduction is required to rectify the housing deficit accrued over the last 15 years. Net migration must be capped at 150,000 per annum for 5-10 years to make meaningful progress towards having affordable housing for all Australians.