



How to tackle the rental crisis

Submission to the Senate Standing Committees on Community Affairs

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Summary

We welcome the opportunity to make a submission to the Senate Standing Committees on Community Affairs inquiry into the rental crisis.

Australia's housing crisis has been building for a long time. But the pandemic has made it worse. Rental vacancy rates are at record lows, and asking rents have risen rapidly. The pandemic and the ensuing work-from-home revolution have spurred a 'race for space'. People want more space to themselves, either by taking an extra bedroom as a home office or by moving out of the family home or a share house. The result is that fewer people are living in each home, meaning we need more homes just to house the same number of people. And now migrants are returning in record numbers as Australia's borders have reopened after the pandemic. Low-income renters are suffering the most, finding it harder to secure stable tenure and make ends meet.

Historically, we have not built enough housing to meet the needs of Australia's growing population. Australia has among the least housing stock per adult in the developed world, and is one of only a handful of developed countries in which housing stock per capita has been stagnant over the past 20 years. Land-use planning rules that constrain development have led to less medium- and high-density housing than Australians actually want, raising rents, while increasing the costs of providing infrastructure for governments.

This is primarily a problem for state governments: they set the overall framework for land and housing supply and they govern the local councils that assess most development applications. National Cabinet's recent decision acknowledged this and was a major step forward. The National Planning Reform Blueprint adds 200,000 homes to the previous target of 1 million extra homes over five years, and, critically, incentivises the states to build them.

Building these extra 200,000 homes over the next five years should result in rents being 4 per cent lower than otherwise, saving renters over \$8 billion in total. This benefits all renters, including low-income ones. Irrespective of its cost, each additional dwelling adds to total supply, which ultimately improves affordability for everyone. The onus is now on the states and territories to undertake the steps – especially reforms to land use planning rules – to turn the plan into reality.

There is also an urgent need for more government support to help house low-income Australians and reduce homelessness. Australia's social housing stock has stagnated in recent decades. The federal government should give priority to constructing new social housing for people at serious risk of homelessness. But boosting social housing is expensive. Given its costs, social housing should be reserved for people most in need, and at significant risk of becoming homeless for the long term. The Housing Australia Future Fund (the HAFF) would guarantee a new flow of investment into social housing, and should be passed by parliament at the earliest opportunity.

Rent Assistance remains the most effective way to support most low-income earners with their housing costs. But the maximum rate of Commonwealth Rent Assistance is inadequate. The recent 15 per cent raise should be turned into a 40 per cent lift from the previous level. And other income support payments – especially JobSeeker – should be raised further.

Federal and state governments should steer clear of proposals to strictly cap or freeze rents, which risk doing more harm than good. There is a case for states to require landlords to justify particularly large rent increases, as already occurs in the ACT, but only once better benchmarks for regional rents are available.

1 Housing has become less affordable

Australian housing has become increasingly expensive in recent decades. More than half of Australians now list housing affordability as their biggest community concern.¹ The current crisis in the rental market – record low vacancy rates and surging asking rents – is quickly undoing recent improvements in rental affordability during the pandemic.

There are more renters, and people are renting for longer, including middle-income families with children. And renters face double-digit increases in rent.

While Australian renters have changed, Australia’s rental market has not. Renting in Australia is often insecure: most tenancy agreements are for a single year, and landlords retain extensive rights to end leases, including via no-cause evictions in many states.

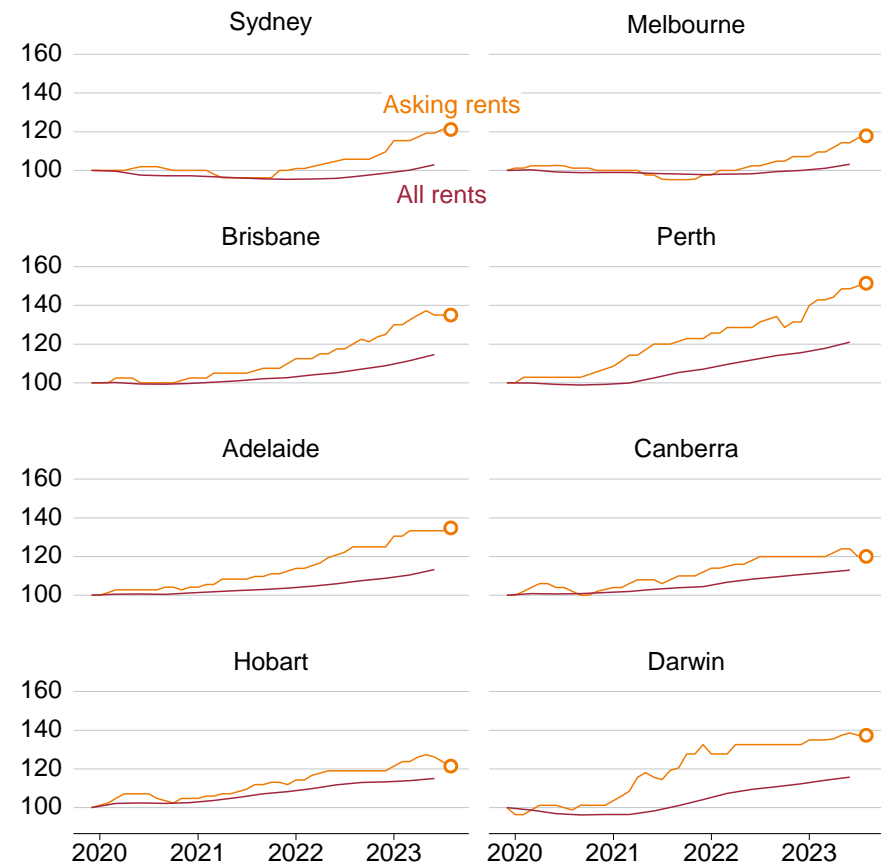
Higher housing costs for low-income Australians, as well as falling rates of home ownership, are contributing to growing wealth inequality and income inequality in Australia.

1.1 Rents are rising rapidly

Rental vacancy rates are at record lows, and asking rents have risen fast. The ‘stock’ of rents – as measured in the Consumer Price Index – is consequently trending up closely behind (Figure 1.1).

The pandemic and the ensuing work-from-home revolution spurred a ‘race for space’. People wanted more space to themselves, either by taking an extra bedroom as a home office or by moving out of the family home or a share house. The result is that fewer people are living in each home, meaning we need more homes just to house the same

Figure 1.1: Rents are rising nationwide
Rents by capital city, nominal, 100 = Jan 2020



Sources: PropTrack, ABS (2023a).

1. ACM (2023).

number of people. The Reserve Bank estimates that the number of people living in each home in Australia fell from an average of 2.55 people in late-2020 to 2.48 people by mid-2022.²

That change alone implies we need an extra 275,000 homes just to house the existing population nationwide.³ Some of this change will reverse now, as people consolidate in larger households due to higher rents. But many Australians will keep working from home much of the time.

And now migrants are returning in record numbers as Australia's borders have reopened after the pandemic. The federal Treasury estimates that the number of migrants residing in Australia will rise by about 1.1 million over the next four years. That's on top of an estimated 400,000 migrants who settled in Australia in 2022-23.⁴ More people means we need more houses again – yet we are adding people a lot faster than we are adding houses.

Some people have argued that rising rents are due to the effect rising interest rates have on landlords' costs.⁵ But the best available evidence actually shows that, in the short run, higher interest rates *reduce* rents by cooling the economy, slowing income growth, and therefore reducing the amount of money people are willing to pay for rental housing.⁶ To the extent that landlords appear to be passing on interest rate rises into rents, this simply reflects the low vacancy rate and the strong bargaining position landlords are in.

2. Agarwal et al (2023).

3. Coates (2023).

4. Australian Government (2022).

5. Taylor and Tong (2022).

6. But over the long run, higher interest rates can reduce dwelling investment and thus can lead to higher rents via lower supply. See Tulip and Saunders (2019).

1.2 There are more renters, and the typical renter is changing

Home ownership is falling fast among younger, poorer Australians.⁷ As a result, more Australians are renting well into their 30s and 40s. From 2001 to 2020, the share of 25–34 year-old households in the private rental market increased from 40 per cent to 51 per cent, and the share of those aged 35-44 rose from 23 per cent to 37 per cent.⁸ At the forefront are single mothers, who are now more likely to be in a private rental than not, a big change from 20 years ago.⁹ But now renting is not an uncommon experience for working-age households of all income levels. In 2019-20, well over 40 per cent of middle-income households aged 35-44 were renters (Figure 1.2 on the next page).

Couples are increasingly raising families in rentals. Nearly a quarter of couples who started their family more than five years ago are still in a private rental.¹⁰

Ultimately, falling home ownership means more people entering retirement as renters. Grattan Institute has previously projected that the share of over-65s who own their home is tracking to fall from 76 per cent today to 70 per cent by 2036, 64 per cent by 2046, and 57 per cent by 2056. Retirees are more likely to be financially stressed, and half of retired renters live in poverty.¹¹

1.3 Yet renting remains insecure

While Australian renters have changed, Australia's rental market has not. Although renting can offer more flexibility, it is often unstable. Renters have little assurance that they can stay in a place as long as they want. Most tenancy agreements are for a fixed term of one year

7. Coates (2022a).

8. ABS (2004a); and ABS (2022a).

9. Grattan analysis of ABS (2022b).

10. Grattan analysis of ABS (ibid).

11. Coates and Nolan (2020, p. 19).

(or less). They often then convert to periodic leases (often referred to as month-by-month leases).

Being forced to move, or worrying about the possibility of having to move, is a particular problem for families with children in school, for people who are psychologically distressed by change (often older people), and for people who struggle to afford the costs of moving (especially but not only poor people).

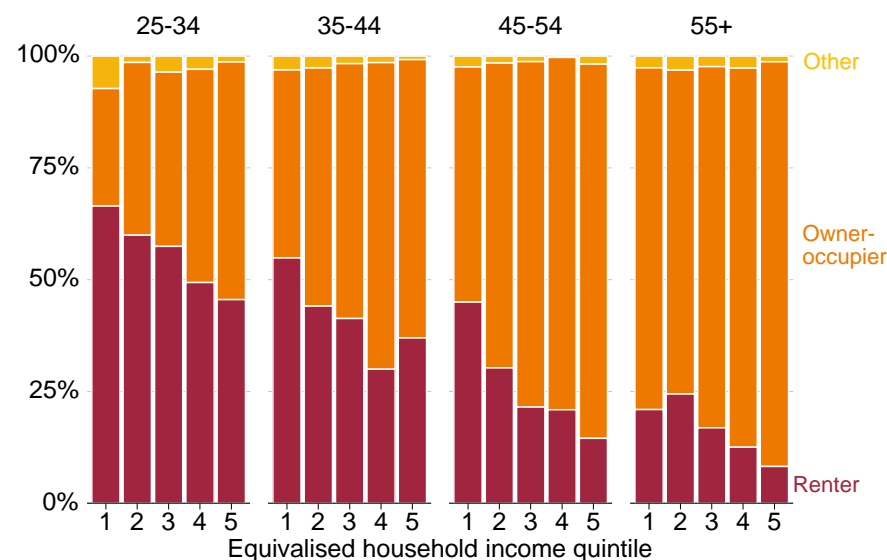
Tenancy laws are supposed to ameliorate some of the unequal bargaining power that landlords often have over tenants. But landlords often have the upper hand in negotiations if the prospective tenant needs to get a roof over their head quickly – the consequences of being homeless for a week are much greater than the consequences of missing out on a week’s rent.

While several states have recently reformed tenancy laws to strengthen the hand of tenants, renting remains insecure.¹² No-grounds evictions remain common across much of Australia.

In August, National Cabinet committed to phasing out no-grounds evictions in all jurisdictions.¹³ This is an important first step, but more will be needed to provide renters with adequate tenure security. Even in states that have already abolished no-grounds evictions, such as Victoria, Queensland, and Tasmania, tenancies can be terminated without grounds following the end of the first fixed lease. Landlords also retain extensive rights to evict tenants for a range of reasons, such as to move into or sell the property, typically with 60 days notice.¹⁴

Figure 1.2: A significant share of working-age, middle-income households are renting

Housing status by age group and equivalised household income quintiles, 2019-20



Notes: Age groups determined by the age of the reference person. Quintiles calculated separately for each age group. Quintile 1 has the lowest income, quintile 5 the highest.

Source: Grattan analysis of ABS (2022b).

12. NSW, Victoria, and Queensland all passed legislation in recent years. NSW, Western Australia, and South Australia are reviewing rental laws.

13. Prime Minister of Australia (2023a).

14. Martin et al (2022).

1.4 Housing costs are contributing to growing inequality in Australia

Lower-income households in particular are spending more of their income on housing.¹⁵ About 18 per cent of low-income Australians in the private rental market suffer rental stress. The proportion is highest in the capital cities.¹⁶ These figures have probably got worse in light of the recent, rapid increases in rents.¹⁷

Further, homeowners have benefited from rapidly growing house prices (albeit many mortgagees currently face increasing interest burdens). Australian dwelling prices have grown much faster than incomes over the past few decades (Figure 1.3).

These two forces are feeding inequality. While income inequality is not getting much worse in Australia, incomes *after housing costs* have risen much faster for high-income than low-income households (Figure 1.4). Housing is also a leading reason that wealth has increased faster for those who were already wealthy.¹⁸

1.5 Homelessness is still stubbornly high

Rising housing costs also contribute to increased homelessness.¹⁹ In 2021, there were 48 homeless people for every 10,000 Australians, up from 45 in 2006.²⁰ More than 122,000 people were homeless in

15. Coates (2022a).

16. AIHW (2021). Rental stress for low-income households is defined as the bottom 40 per cent of households with respect to equivalised disposable household income (excluding Commonwealth Rent Assistance), spending more than 30 per cent of gross income on rent.

17. Rents remain high and have also risen relative to incomes over the longer term, particularly for low-income households in capital cities following the decreased availability of social housing.

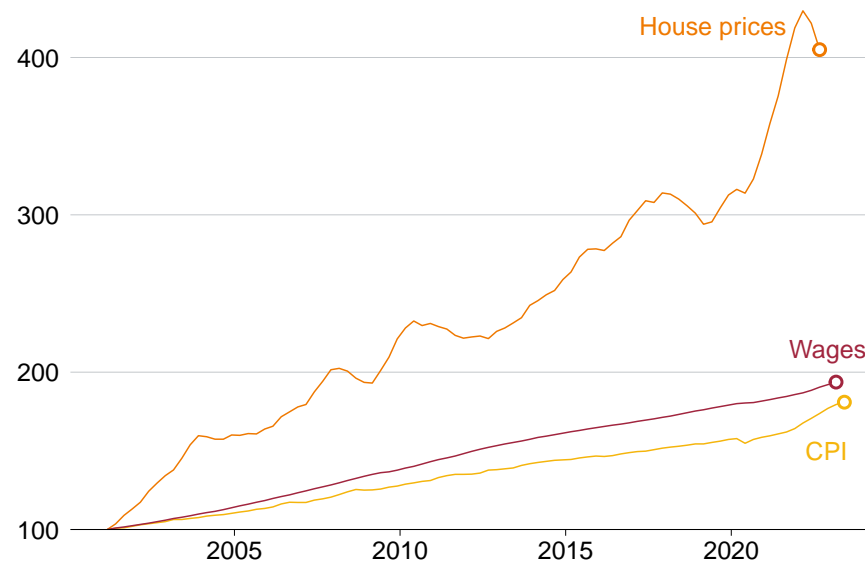
18. Daley et al (2018c, Figure 5.1).

19. Johnson et al (2018), Glynn et al (2018), Kushel and Moore (2023)

20. ABS (2021b).

Figure 1.3: House prices have grown strongly relative to wages for the past two decades

Nominal index, 2001 = 100



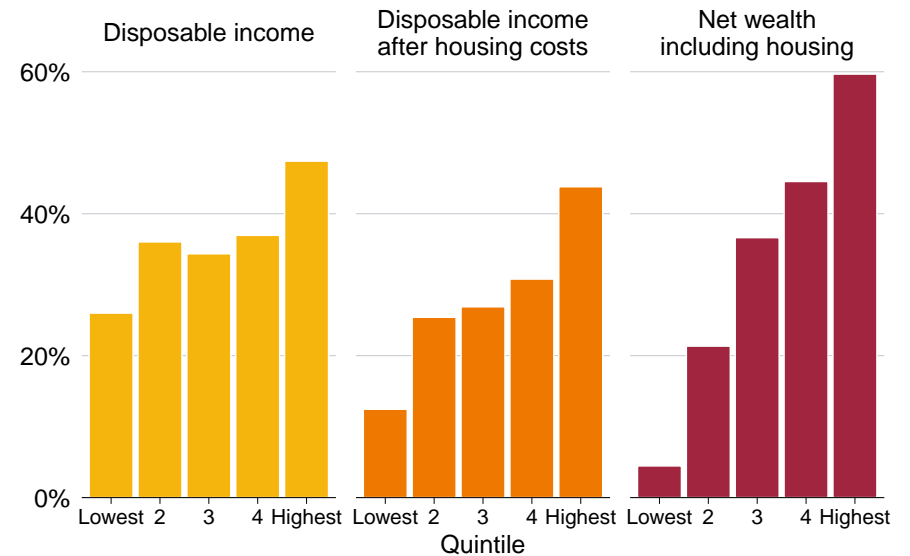
Notes: Nominal house price growth combines a series from the Bank of International Settlements and ABS 6432.0. Wages are measured as the Wage Price Index (public and private, all industries, excluding bonuses, seasonally adjusted). Rents and CPI are from the ABS Consumer Price Index catalogue.

Sources: Grattan analysis of BIS (2021), ABS (2021a), ABS (2023a), ABS (2023b).

Australia on Census night in 2021 – up from 116,000 in the 2016 Census and 102,000 in the 2011 Census.²¹ Over the same period, the number of people sleeping rough – on the streets, in improvised dwellings, or tents – grew by about 820 people, to 7,600.²²

Figure 1.4: Rising housing costs are contributing to income inequality and wealth inequality

Real growth from 2003-04 to 2019-20, equivalised households



Notes: Growth in disposable income after housing costs calculated by subtracting growth in housing costs from growth in disposable income. Quintiles are calculated as the mean of disposable income quintiles, except for net wealth which is calculated on net wealth quintiles. Housing costs use the standard Survey of Income and Housing measure of housing costs, which includes rent and mortgage repayments.

Sources: Grattan analysis of ABS (2022b), ABS (2004b), ABS (2022a).

21. Ibid.

22. Ibid.

2 Australia hasn't built enough housing to meet rising demand

Housing in Australia has become increasingly expensive – to rent or buy – for many reasons. Incomes rose, while tax and welfare settings and rapid migration fed price growth. And the 'race for space' during the pandemic and subsequent re-opening of the borders have led to a surge in rents.

But housing costs – especially rents – would have risen less if there had been more housing. Australia has among the least housing per person of any country in the OECD, and is one of only four countries where housing per person went backwards over the past two decades. Restrictive land-use planning rules have constrained housing supply in Australia, especially in our major cities. Experience abroad shows that relaxing planning constraints leads to materially more housing being built.

The stock of social housing has also not kept pace with population growth. As a result, many vulnerable renters at risk of homelessness have not been offered the support they need.

2.1 Australian cities have not built enough housing

Australian cities have not built enough housing to meet the needs of Australia's growing population. Australia has just over 400 dwellings per 1,000 people, which is among the least housing stock per adult in the developed world. And unlike other countries, this number has stalled in Australia over the past two decades (Figure 2.1 on the next page).

Some have argued that there has been no longer-term undersupply of homes in Australia.²³ But these estimates have ignored how

rising prices and worsening affordability pushed people into larger households than they otherwise would have chosen.²⁴

Housing commencements, particularly for multi-unit developments, had accelerated in the years leading into the COVID pandemic. But even these elevated levels of construction were only just sufficient to accommodate the population increases in Sydney and Melbourne before the pandemic.²⁵

After a brief spike due to the 'HomeBuilder' subsidy, construction is now being weighed down by supply constraints, high inflation, and the rise in interest rates.²⁶ Treasury projects that dwelling investment will decline until 2025.²⁷

The closure of Australia's international borders due to COVID-19 resulted in Australia's population growth slowing to a near stand-still. But now, as outlined in Chapter 1 on page 3, the number of migrants settling in Australia is set to rise by 1.1 million over the next four years, at a time when people are exhibiting a persistent preference for smaller households. This means future rates of construction will need to be even higher than the elevated pre-pandemic levels.

23. See B. Phillips and Joseph (2017).

24. The average number of people living in each dwelling fell from 3.5 to 2.6 between 1966 and 1996 due to couples having fewer children, the ageing of the population, shifting lifestyle preferences, more family breakdowns leading to smaller households, and older people living in their home for longer. However, household size was roughly constant from the late-1990s until the pandemic. Therefore, these analyses underplay the number of dwellings that were needed to accommodate Australia's growing population and changing preferences. See Daley et al (2018a).

25. Daley et al (2019); and HIA (2023).

26. The HomeBuilder subsidy provided grants for eligible owner-occupiers to build or renovate a home. The program ran between June 2020 and March 2021: Australian Government (2021).

27. Treasury (2023a, p. 62).

2.2 Restrictive planning rules have constrained supply

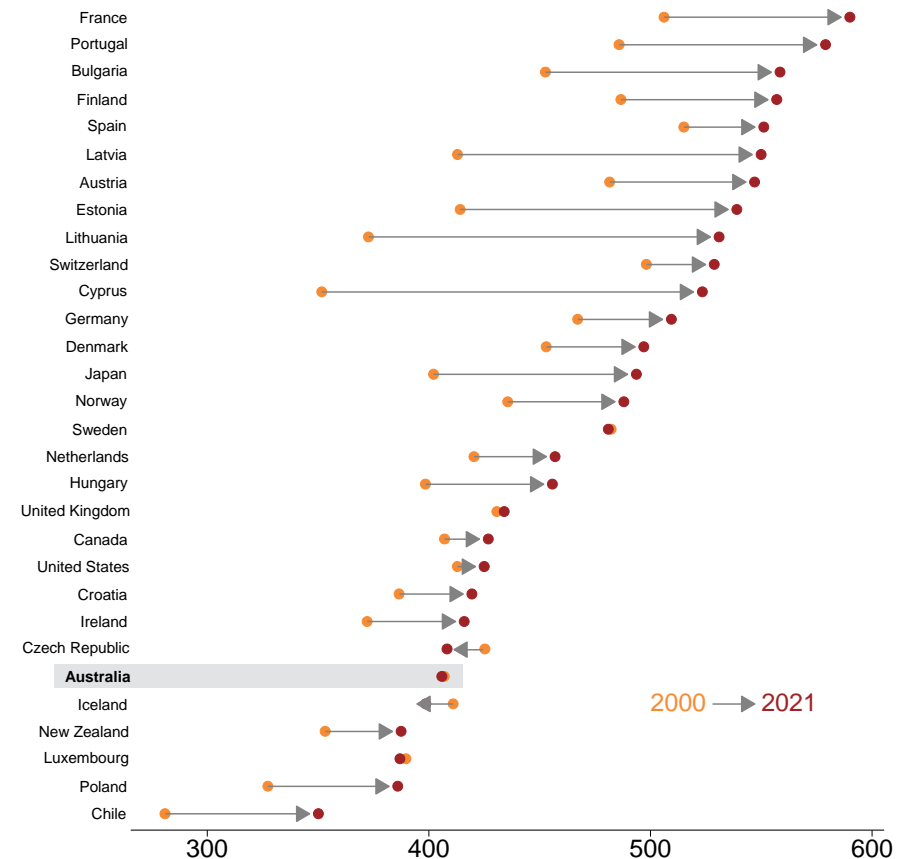
Australia’s high housing costs are largely a failure of housing policy, rather than of housing markets.

Australia’s land-use planning rules are highly prescriptive and complex. Current rules and community opposition make it very difficult to create extra residences in the inner and middle-ring suburbs of our capital cities.²⁸ And so new housing construction in Australian cities is relatively unresponsive to demand,²⁹ and the density of Australian cities has barely changed in the past 35 years.³⁰

In 2018, Reserve Bank researchers estimated that restrictive land-use planning rules added up to 40 per cent to the price of houses in Sydney and Melbourne, up sharply from 15 years earlier.³¹ More recent research suggests that planning rules have added substantially to the cost of apartments, where building height limits in and around the urban cores of our major cities prevent more construction.³² These findings are consistent with a growing international literature highlighting how land-use planning rules – including zoning, other regulations, and lengthy development approval processes – have reduced the ability of many housing markets to respond to growing

28. See Daley et al (2018a, pp. 56-58) on how regulations affect housing supply.
 29. The best available estimates of the ‘price elasticity of supply’ in Australia is that a 10 per cent increase in dwelling prices leads to an increase in the stock of new housing of between 3 per cent and 5 per cent. See Daley et al (ibid, p. 46).
 30. Daley et al (ibid).
 31. As demand for housing has increased, the zoning effect as a share of the price of housing has increased. See Kendall and Tulip (2018). There are reasons to think of these as upper-bound estimates of the size of the impact of land-use planning rules. See Murray (2020). A good discussion of the debate can be found at Caplan (2022).
 32. Jenner and Tulip (2020) estimate that home-buyers will pay an average of \$873,000 for a new apartment in Sydney though it only costs \$519,000 to supply, a gap of \$355,000 (68 per cent of costs). There are smaller gaps of \$97,000 (20 per cent of costs) in Melbourne and \$10,000 (2 per cent of costs) in Brisbane.

Figure 2.1: Australia’s growth in housing stock in the past two decades has been among the lowest for developed countries
 Dwellings per 1,000 people, 2000 and 2021 or latest



Notes: Figures are for total occupied and unoccupied dwellings. Data for 2020 series refer to: 2021 for Australia; 2020 for Austria, Denmark, Estonia, Finland, France, Ireland, Lithuania, Luxembourg, Netherlands, Norway, Poland, Portugal, Romania, Sweden, UK, and US; and 2018 for all others. Data for 2000 series refer to: 1998 for Italy; 2001 for Australia, Austria, Bulgaria, Canada, Croatia, Czech Republic, Hungary, Luxembourg, New Zealand, Norway, Portugal, and Spain; 2002 for Chile and Latvia; 2005 for Malta.

Sources: OECD (2022), ABS (2022c).

demand, adding to both rent and house price growth in a number of countries.³³

Of course, land-use planning rules benefit other land users by, for example, preserving the views of existing residents or preventing increased congestion. But studies generally conclude that the benefits of restricting development are much less than the costs imposed.³⁴

Planning rules that constrain development in Australian cities have also led to a shortage of medium- and high-density housing compared to what Australians actually want. Many people would prefer a townhouse, semi-detached dwelling, or apartment in a middle or outer suburb, rather than a house on the city fringe.

Semi-detached dwellings, townhouses, units, and apartments made up 46 per cent of Sydney's and 34 per cent of Melbourne's dwelling stock in 2016, up from about 38 per cent and 24.5 per cent respectively in 2011. But this is still well short of the 59 per cent and 52 per cent respectively that residents say they want (Table 2.1).³⁵ These preferences were also reflected in work by Infrastructure Victoria which found that 20 per cent of Melburnians would trade house and land size to live in an established suburb in a medium-density home, if it was available at a more comparable price.³⁶

In the years leading up to the pandemic, there were significant reforms to allow for more apartment construction in several major Australian cities.³⁷ But Australian cities still have little medium-density

development in their extensive middle rings. Many local governments restrict medium- and high-density developments to appease local residents' concerns about road congestion, parking problems, and damage to neighbourhood character.

Never-ending urban sprawl is socially, economically, and environmentally costly. Changing land use on urban fringes has already created some conflicts as housing developments encroach onto land previously used for farming.³⁸ Even excluding transport, providing infrastructure to an extra dwelling in greenfield areas is between two and four times more expensive than servicing an extra dwelling in an established suburb.³⁹ The NSW Productivity Commission estimated that building in already-established areas can save up to \$75,000 per home in accompanying infrastructure and service provision.⁴⁰

In the post-pandemic world of high population growth and people preferring smaller households, the planning system should be flexible enough to ensure that people can reside where they are happiest and most productive. Allowing Australians to have more choice about where they want to live, by allowing more housing to be built in a variety of places, is the best approach.

2.3 Strict land-use planning rules reflect the politics of planning

Planning regulations are changing only slowly and marginally – despite the pressure of increasing population – because of the politics of planning. Most people in the established middle suburbs already own their house. Most of them don't like new developments in their neighbourhoods.

The structure of government doesn't make the politics of increasing density any easier. The voting bases of councils, the basis on which

33. Daley et al (2018a, Box 4), Greenaway-McGrevy (2023).

34. Ibid, p. 57. For example, in a review of the literature, Gyourko and Molloy (2015) conclude that while the benefits of land-use planning rules are difficult to quantify, 'recent studies suggest that the overall efficiency losses from binding constraints on residential development could be quite large'.

35. Daley et al (2018a, Table 3.2).

36. Infrastructure Victoria (2019).

37. Daley et al (2018a, pp. 58–59).

38. Select Committee on Agricultural and Related Industries (2010, Chapter 2).

39. Infrastructure Victoria (2019).

40. NSW Productivity Commission (2023).

Table 2.1: The housing stock in Sydney and Melbourne is still some way from what people would prefer

	Sydney				Melbourne				
	Detached	Semi-detached or townhouse	Apartment building up to 3 storeys	Apartment buildings 4+ storeys	Detached	Semi-detached or townhouse	Apartment building up to 3 storeys	Apartment buildings 4+ storeys	
% housing stock in 2016									
Inner	5	4	6	7	Inner	10	6	6	6
Middle	13	3	5	4	Middle	18	6	2	1
Outer	18	4	4	2	Outer	25	4	1	0
Fringe	21	3	1	0	Fringe	14	1	0	0
Total	55	14	16	14	Total	67	17	10	7
Preferred housing stock, % of respondents									
Inner	9	4	2	5	Inner	8	6	3	5
Middle	9	7	4	5	Middle	14	9	4	4
Outer	12	7	4	6	Outer	14	6	3	3
Fringe	10	6	5	4	Fringe	12	6	2	2
Total	41	25	15	20	Total	48	26	12	14
Housing stock mismatch (housing stock in 2016 minus preferred housing stock), percentage points									
Inner	-4	0	4	2	Inner	2	0	3	1
Middle	4	-4	1	-1	Middle	4	-3	-2	-3
Outer	6	-3	0	-4	Outer	11	-2	-2	-3
Fringe	11	-3	-4	-4	Fringe	2	-5	-2	-2
Total	15	-11	1	-6	Total	19	-9	-2	-7

Notes: Preferred stock is from the trade-off survey in Kelly et al (2011). Excludes dwellings listed as 'Not stated' and 'Other dwellings'. Semi-detached/townhouses includes townhouses, terrace houses, row houses, courtyard houses, and villa units. Regions are at statistical local area level, sorted according to land price in 2011, and approximately match distance to the CBD. Data may not sum due to rounding.

Source: Daley et al (2018a, Table 3.2).

they collect rates, and the blurring of responsibilities between the federal government and the states, all reduce the political incentives for any level of government to do better.

The benefits of population growth accrue to society as a whole, whereas development regulations largely sit with local councils. Existing residents usually prefer their suburb to stay the same. Restricting development effectively increases the scarcity value of their property. And they worry that increased population will reduce the value to each of them of the current publicly provided infrastructure in their area, such as roads and other amenities. Existing residents are typically concerned that if there is more development, there will be more traffic congestion, more crowding on public transport, more noise, and less ‘street appeal’.⁴¹

Meanwhile, prospective residents who don’t already live in desirable suburbs cannot vote in council elections or for local representatives in state parliaments, and their interests are largely unrepresented.

2.4 Social housing has also not kept pace with population growth

Social housing, where rents are typically set at 25-to-30 per cent of household income, has historically housed a minority of low-income renters in Australia. Social housing is usually offered at a substantial rental discount on what the same properties would cost on the private rental market. Social housing, especially public housing offered by state governments, also offers greater tenure security to renters.

The best Australian evidence shows that social housing substantially reduces tenants’ risk of homelessness.⁴² Social housing can make a

41. Daley et al (2018a).

42. Prentice and Scutella (2018) studied the benefits of social housing, comparing people who entered social housing to similar individuals in the private rental market. They found that only 7 per cent of residents placed in social housing

big difference to the lives of vulnerable people. While lots of landlords rent to low-income households, many are prepared to leave their property vacant if the only person seeking tenancy faces the many issues typical for those who are at severe risk of, or already suffering, homelessness.⁴³

Yet the stock of social housing – currently about 430,000 dwellings – has barely grown in 20 years, while the population has increased by 33 per cent.⁴⁴ About 6 per cent of housing in Australia was social in 1991. It’s now less than 4 per cent (Figure 2.2 on the next page). As a consequence, there is little ‘flow’ of social housing available for people whose lives take a big turn for the worse,⁴⁵ and many people who are in great need are not assisted. Tenants generally take a long time to leave social housing; most have stayed for more than five years.⁴⁶

But boosting social housing would be expensive. Estimates vary, but each additional social housing dwelling probably requires either an annual subsidy of at least \$15,000 a year, or an upfront capital contribution of about \$300,000.⁴⁷ Therefore, even boosting Australia’s stock of social housing by 200,000 dwellings – almost sufficient to return social housing to its historical share of the total housing stock – would require an ongoing government subsidy of at least \$3 billion a year.⁴⁸

subsequently become homeless, compared to 20 per cent of similar renters in the private market.

43. Daley et al (2018a).

44. Coates (2021). This is despite some significant investments in social housing, including the former Rudd Government’s Social Housing Initiative.

45. Daley et al (2018a, p. 132).

46. AIHW (2017).

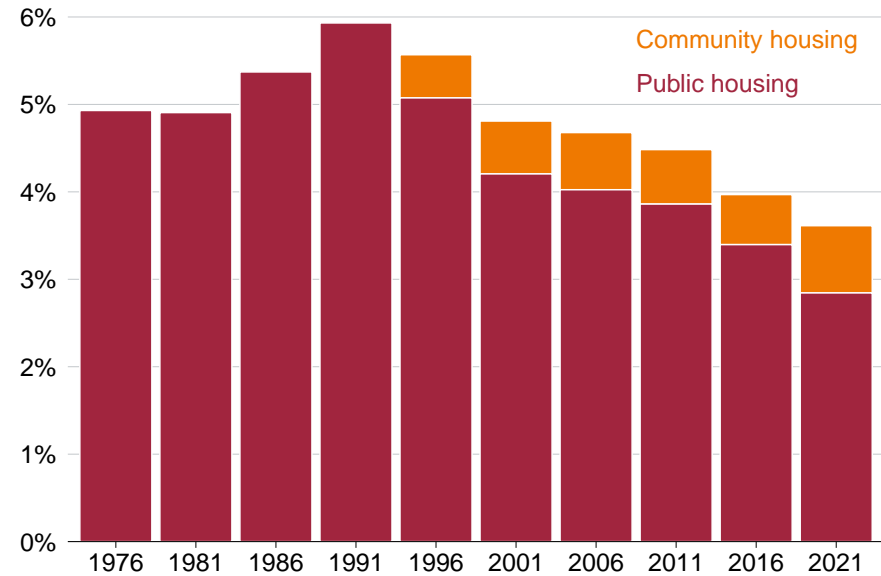
47. Estimates of the average upfront cost of building a unit of social housing range from \$240,000 to \$330,000. See Coates (2021). These figures are likely to be underestimates given the recent spike in rents and construction costs.

48. Alternatively, 200,000 social dwellings would require an upfront capital contribution of about \$60 billion.

A new approach is needed to ensure adequate and sustainable funding for new social housing. In the meantime, the existing social housing stock needs to be better managed. It is often not well-suited to tenants' needs,⁴⁹ and it is often of poor quality.⁵⁰

Figure 2.2: Australia's social housing stock is falling

Social housing as a proportion of all housing



Note: Before 1996, community housing was not recorded in the Census, but it probably accounted for a small amount of the total social housing stock. All data are from ABS Census'. Summary tables are used for 1976-1986, microdata for 1991-2001, and TableBuilder for 2006-2021.

Source: Grattan analysis of ABS (1978), ABS (1983), ABS (1988), ABS (1993), ABS (1997), ABS (2002), ABS (2007), ABS (2012), ABS (2017) and ABS (2022c).

49. Tenants have little choice over the home they are offered, so the type of housing available can be incompatible with their needs. For example, the public housing stock is dominated by three-bedroom houses, yet most recipients are singles or couples without children.

50. In 2018 almost one-in-five Victorian social housing dwellings did not meet minimum acceptable standards: Productivity Commission (2020).

3 What the federal government can do

The remainder of the submission identifies federal government policies that might improve housing affordability.

Grattan Institute's 2018 report, *Housing affordability: Re-imagining the Australian dream*, showed what would work. The report evaluated a wide range of housing policy options and whether they would make a material difference to affordability without substantially dragging on the economy or the budget.⁵¹ Subsequent Grattan Institute work has identified how best to target housing subsidies to support vulnerable Australians into affordable and secure housing.⁵²

The most impactful way to improve affordability – both to buy and to rent – would be for governments to permit more homes to be built. National Cabinet's plan to build an extra 200,000 homes a year over five years could reduce rents from what otherwise would have been by 4 per cent, saving renters \$8 billion. If those higher rate of construction are sustained for a decade, rents could fall by 8 per cent, saving renters \$32 billion total.⁵³ But these gains will only be realised if state and territory governments undertake necessary reforms to land use planning rules to allow more housing to be built.

51. Daley et al (2018a, Figure 5.2).

52. For example, see Grattan Institute's proposal to establish a future fund to support social housing (Coates (2021)) and proposals to boost the rate of Commonwealth Rent Assistance (Coates and Nolan (2020)).

53. Baseline assumes dwelling stock and number of renter households grow with population (1.5 per cent p.a.), and rents grow with inflation (2.75 per cent p.a.). Counterfactual adds 40,000 dwellings each year to the baseline dwelling stock which feeds through to rents being 2.5 per cent lower than otherwise for each 1 per cent increase in the quantity of housing. This effect is based on the midpoint of existing estimates for the price elasticity of the demand for housing Australia. See: Daley et al (2018b) and Tulip and Saunders (2019).

Beyond incentivising the states to reform land use planning rules to boost supply, the best way the federal government can improve affordability is by reforming tax and welfare policies that distort demand for housing. The federal government should reduce the capital gains tax discount from 50 per cent to 25 per cent; limit negative gearing; and include owner-occupied housing in the Age Pension assets test. Housing would also be better allocated if the federal government supported states to replace stamp duty with a broad-based land tax.

To help renters, the federal government should further lift the maximum rate of Commonwealth Rent Assistance – the recent 15 per cent raise should be turned into a 40 per cent lift from the previous level.

Renters' lives could also be improved over the longer term if National Cabinet continued to work towards improved tenure quality and security. Tenure security for renters would particularly improve if institutional investors, who are better placed to manage the risks of rental housing and offer longer-term tenure to renters, were to hold a larger share of the rental housing stock.

Federal and state governments should continue to steer clear of proposals to strictly cap or freeze rents, which risk doing more harm than good. There is a case for states to require landlords to justify particularly large rent increases, as already occurs in the ACT, but only once better benchmarks for regional rents are available.

The Senate should also pass the HAFF Bill currently before the Senate to provide an immediate and much-needed boost to Australia's social housing stock. Further delay in passing the HAFF Bill now will simply worsen Australia's housing crisis, hurting some of Australia's most vulnerable

3.1 National Cabinet's plan to sharpen states' incentives to boost housing supply is a big step forward

The National Planning Reform Blueprint adds 200,000 homes to the Housing Accord's previous target of 1 million extra well-located homes over five years.

More importantly, that target is backed by \$3.5 billion in incentives for states and territories to actually deliver the extra homes. Most of that comes from the New Home Bonus, which will give states and territories \$15,000 for every one of the extra 200,000 homes they deliver.⁵⁴

A separate Housing Support Program will provide \$500 million in competitive funding for state and local governments who make headway in connecting services to new housing developments and fast-tracking planning reforms.⁵⁵

The plan could reduce rents from what otherwise would have been by 4 per cent, saving renters \$8 billion. If those higher rate of construction are sustained for a decade, rents could fall by 8 per cent, saving renters \$32 billion total.⁵⁶

54. Rewarding outcomes, rather than reforms, is important. The specific barriers that make housing supply unresponsive to demand vary state-to-state (although the effect is the same: fewer houses where people most want to live).

55. National Cabinet has also committed to rectifying problems in housing design and building certification to lift the quality of new builds, particularly apartments. Public support for more density in existing suburbs will rise if residents know that what will get built will be good-quality housing that results in more vibrant and liveable communities. See: Coates (2022b).

56. Baseline assumes dwelling stock and number of renter households grow with population (1.5 per cent p.a.), and rents grow with inflation (2.75 per cent p.a.). Counterfactual adds 40,000 dwellings each year to the baseline dwelling stock which feeds through to rents being 2.5 per cent lower than otherwise for each 1 per cent increase in the quantity of housing. This effect is based on the midpoint of existing estimates for the price elasticity of the demand for housing in Australia. See: Daley et al (2018b) and Tulip and Saunders (2019).

These estimates are not merely theoretical. In 2016, about three-quarters of the residential land in Auckland, New Zealand, was 'up-zoned', meaning more housing is allowed per plot of land. Researchers have found it led to an increase in housing supply of up to 4 per cent of the housing stock in just five years,⁵⁷ and a decline in rents of 14-to-35 per cent for two- and three-bedroom dwellings.⁵⁸

Grattan Institute has long argued for such incentives to break the political deadlock of supply-side reform.⁵⁹

Coordinating action by the states is worthwhile because improved housing supply in one state spills over into lower prices in other states.⁶⁰ The federal government is best placed to solve the coordination problem. And the Commonwealth tax base is more likely than the state tax base to capture the increased revenues that flow from higher economic growth as a result of better housing supply.

The principle of federal financial support for state-level reform is well-established. From 1997-98 to 2005-06 the National Competition Policy involved payments averaging about \$600 million a year to the states and territories for regulatory and competition reform.⁶¹ The Productivity Commission's 2005 review of the National Competition Policy found that it had delivered substantial benefits to the Australian community which, overall, greatly outweighed the costs of these payments.⁶²

57. Greenaway-McGrevy and P. Phillips (2023).

58. Greenaway-McGrevy (2023).

59. Daley et al (2018a, pp. 128–130).

60. Australia's housing markets are interconnected. If, for example, only the Victorian government substantially boosts housing supply, any improvement in affordability will be dispersed across Australia as residents of other Australian cities move to Melbourne, attracted by lower house prices and rents. See: Daley et al (2018a, p. 129), Abelson (2016) and Aura and Davidoff (2008).

61. Productivity Commission (2005).

62. Ibid.

The onus is now on the states to undertake the necessary reforms – especially to land use planning rules – to ensure the additional homes are built. And the federal government still has work to do to ensure we can find the skilled workers needed to build these extra houses, including by streamlining pathways to skilled migration for scarce skilled trades workers.⁶³

3.1.1 Boosting housing supply would especially help low-income earners

Grattan Institute research suggests that a 10 per cent fall in private market rents would reduce by 8 per cent the number of low-income households nationwide who are suffering housing stress.⁶⁴

More private housing helps people on low incomes by lowering the rents they pay. Rents have increased more slowly over the past decade in Victorian suburbs in which more housing has been constructed.⁶⁵

And lower rents reduce the risk of homelessness for those who are already vulnerable. A survey of 3,200 homeless people in California showed that inability to afford housing was both the underlying cause of homelessness and the primary barrier to returning to housing.⁶⁶ An Australian study found that higher rents had a greater impact on the risk of homelessness than frequent illicit drug use, experiencing physical

or sexual violence in the past six months, or a history of being in state care.⁶⁷

Claims that direct investment in affordable (i.e. subsidised) housing is the only way to boost the stock of homes available to low-income earners are based on flawed research.⁶⁸ More housing supply will ultimately free-up less-expensive housing stock, making rents cheaper for low-income earners.⁶⁹

International evidence suggests that this ‘filtering’ does occur in practice. For example, research from the US suggests that 45 per cent of homes that were affordable to very low-income earners in 2013 had filtered down from owner-occupier or higher-rent categories in 1985.⁷⁰ High-quality evidence from Australia shows filtering can be made even more efficient by removing supply constraints.⁷¹

Making housing cheaper would also make existing federal government subsidies more effective, since Rent Assistance would go further towards reducing financial stress among low-income private renters.

63. For example, opening up temporary employer sponsorship to workers in any occupation earning more than \$70,000 a year, and abolishing labour market testing, would simplify and speed up the sponsorship process for skilled trades workers. Coates et al (2022a).

64. Coates et al (2020, p. 15).

65. Each 1-percentage-point increase in the amount of new housing constructed in a local government area resulted in rents growing 3.7 per cent slower over the decade (Grattan analysis of ABS (2017) and Victorian Department of Health and Human Services (2019)).

66. Kushel and Moore (2023).

67. Johnson et al (2018) find that a \$100 increase in 20th percentile weekly rents raised an individual's risk of becoming homeless by almost 3 per cent.

68. For example, Ong et al (2017) claim that most of the additional dwellings built over the past decade were substantially more expensive than the existing housing stock. But this study is flawed because it groups price deciles by the number of local government areas, rather than by the number of dwellings. Grattan Institute's analysis of the data, updated to 2016-17, shows that two-thirds of new houses have been built in the cheapest half of all suburbs, and most new units and apartments have been built in Sydney and Melbourne, where median prices are higher (Coates and Wiltshire (2018)).

69. See Daley et al (2018a, p. 64). The people who move into newly constructed, more expensive housing are either existing residents who move out of less-expensive housing, or new residents who would otherwise have added to the demand and pushed up the price of existing housing. Irrespective of its cost, each additional dwelling adds to total supply, which ultimately improves affordability for all.

70. Weicher et al (2016).

71. Hansen and Rambaldi (2022).

3.2 Reducing migration would improve housing affordability but would probably leave Australians worse off

Australia's migration policy is its de-facto population policy. As outlined in Chapter 1 on page 3, Australia is experiencing high levels of temporary migration following the re-opening of the borders post-pandemic, adding to demand for Australia's limited housing stock. Over the first two years of the pandemic, nearly 400,000 international students, working holiday makers and temporary sponsored workers left Australia. In the past year, the number of these temporary visa holders in Australia has returned to pre-pandemic levels.⁷²

At the same time, Australia's permanent migration program has been increased from 160,000 a year to 190,000 a year from 2023-24. Although this decision has had little impact on migration numbers to date because most permanent visas are issued to migrants already here on temporary visas.⁷³ But if the higher permanent intake is continued, it will add an extra 30,000 a year to net overseas migration in the long term as more temporary visa-holders stay in Australia.

Some have called for fewer migrants to be allowed into Australia, to improve housing affordability and reduce congestion in our biggest cities. Federal Opposition Leader Peter Dutton, in his 2023 budget reply speech, criticised the government's 'big Australia' policy, saying it would make the housing crisis worse.⁷⁴

Closing the borders during the pandemic temporarily made housing much less scarce and therefore lowered rents, although this was offset by the increase in demand from Australians outlined in Chapter 1 on page 3. And over the long term, a lower rate of ongoing migration

would make housing somewhat more affordable.⁷⁵ Grattan Institute has previously estimated that boosting Australia's permanent migrant intake by 30,000 a year will result in rents and housing prices being about 3-to-4 per cent higher than otherwise after a decade.⁷⁶ Researchers at the Reserve Bank recently estimated that the post-2005 increase in migration led to rents (and house prices) being about 9 per cent higher than they otherwise would have been.⁷⁷

The higher rents paid by migrants for housing, vis-a-vis if that housing was otherwise rented locally, boosts national income. However higher rents paid by Australians benefit older, wealthier Australians who tend to own housing, and hurt younger, poorer Australians who tend to rent, raising inequality in Australia.

Lowering migration, especially skilled migration, to protect vulnerable renters also imposes big costs on the Australian community. Skilled migrants, especially permanent skilled migrants, offer a large fiscal dividend since they pay much more in taxes than they receive in benefits and public services over their lifetimes in Australia.⁷⁸ Grattan Institute modelling estimates that reducing the permanent skilled program by 10,000 places each year could cost the federal and state budgets between \$67.5 billion to \$125 billion over the next 30 years, depending on which skilled visa class the places are taken from.⁷⁹ Reducing skilled migration may also further slow Australia's flagging rate of productivity growth.⁸⁰

72. Yet the contribution of migration to Australia's population is expected to remain smaller than was expected before Covid for nearly a decade. Coates (2023).

73. Coates et al (2021, Chapter 1).

74. Dutton (2023).

75. Daley et al (2018a).

76. See Coates and Reysenbach (2022).

77. Tulip and Saunders (2019).

78. Varela et al (2021).

79. Coates et al (2022a, Figure 5.6).

80. A growing international evidence base suggests migrants can create productivity spillovers via innovation. Recent OECD analysis showed a positive relationship between migration and productivity in Australia, but this evidence does not represent a causal relationship. Coates et al (2022b, p. 13).

Alternatively, the federal government could reduce the size of Australia's permanent family migration program, which has historically accounted for just over one-third of all permanent visas issued each year. But the bulk of visas issued under the family program – 43,500 visas in 2023-24 – are allocated to the partners of Australian residents and citizens and their dependent children.⁸¹ Australia operates a demand-driven approach to partner visas, recognising the importance of family reunification to the wellbeing of Australians. Cutting the number of permanent partner visas issued would simply increase the wait times for spouses seeking permanent residency, who would remain in Australia on bridging visas in the interim.⁸²

There is scope to reform permanent parent visas, which come at substantial long-term fiscal cost to the Australian community.⁸³ However, only 8,500 such visas are currently issued each year and migrants can wait up to 40 years to have their parents join them in Australia on a permanent basis.⁸⁴ And any decision to reduce the number of permanent parent visas on offer, while justified on fiscal grounds, may not reduce Australia's resident population if parents are instead offered some form of long-term temporary visa to reside in Australia.⁸⁵

But some forms of temporary migration could be scaled back without imposing big costs on the Australian community. For instance, Grattan Institute has previously recommended that sponsored work visas

should be limited to people earning at least \$70,000 a year.⁸⁶ In addition, working holiday makers should be eligible for only one 12-month visa, instead of the two or three they can currently receive in return for working in regional Australia.⁸⁷ This would make working holiday makers less vulnerable to exploitation, bring the program more in line with its original intention of cultural exchange, and reduce the stock of working holiday makers in Australia who are adding to pressure on Australia's limited housing stock.⁸⁸

Finally, raising the bar for international students seeking to study in Australia, and re-evaluating what work rights should be offered to international students after they graduate, could also reduce the pool of international students in Australia.⁸⁹

3.3 Reform tax and welfare rules

Housing demand would be reduced a little if the federal government reduced the capital gains tax discount and limited negative gearing – and there would be substantial economic and budgetary benefits.⁹⁰

The effect on property prices would be modest – they would be roughly 2 per cent lower than otherwise – and would-be homeowners would win at the expense of investors. House prices at the bottom would probably

81. Department of Home Affairs (2023).

82. See Parkinson et al (2023).

83. Varela et al (2021, p. 8) estimated that each permanent parent visa issued imposed a fiscal cost of about \$390,000 on federal and state governments combined, since Visa Application Charges paid by parent visa-holders are small compared to the health and aged care services and transfer payments they receive from government.

84. See Parkinson et al (2023, p. 33).

85. Parent visas will be the subject of future work by Grattan Institute.

86. Coates et al (n.d.). The federal government has since raised the minimum wage threshold for the Temporary Skills Shortage visa to \$70,000 a year.

87. Currently, in exchange for three or six months of 'specified work', working holiday makers become eligible to apply for a further stay in Australia on either a second or third visa. Specified work includes plant and animal cultivation, fishing and pearling, tree farming and felling, mining, and construction. The definition of specified work was expanded during the pandemic to to include healthcare and tourism, among other sectors. Before COVID, about one in four working holiday makers in Australia – about 30,000 to 35,000 people – were on a second or third working holiday visa. See Coates et al (2023, pp. 31–32).

88. Coates et al (ibid).

89. These issues are the subject of a forthcoming Grattan Institute report.

90. Daley et al (2016).

fall by more, since these tax breaks have channelled investors into low-value homes that are lightly taxed under states' progressive land taxes and tax-free thresholds.⁹¹

Our dominant rationale for these reforms is their economic and budgetary benefits. The current tax arrangements distort investment decisions and make housing markets more volatile. Our proposed reforms would boost the budget bottom line by about \$7 billion a year.⁹² Contrary to urban myth, rents wouldn't change much, nor would housing markets collapse.⁹³ When an investor sells a property, it is usually bought by a current renter or new investor, therefore retaining the balance between the supply and demand of rental properties.

Including more of the value of the family home in the pension assets test would also marginally reduce housing demand. Under current rules only the first \$242,000 of home equity is counted in the pension assets test; the remainder is ignored.⁹⁴ Inverting this so that all of the value of a home is counted above some threshold – such as \$750,000 – would be fairer, and contribute about \$4 billion a year to the budget, and much more over time.⁹⁵

Again, our dominant rationale for this reform is the budgetary benefit, rather than housing affordability. Almost 40 per cent of the government's spending on the Age Pension goes to people with more than \$750,000 in assets.⁹⁶

91. Daley et al (2018a, pp. 97–98).

92. Wood et al (2023).

93. Analysis of daily house price data, compiled by Corelogic after the 2019 federal election, showed that APRA's post-election decision to loosen the lending restrictions it imposes on the banks, rather than the election result, spurred the recovery of Australian house prices. See Coates and Cowgill (2019).

94. This is the gap between the asset limit for homeowners vs. non-homeowners: Services Australia (2023).

95. Wood et al (2023).

96. Grattan analysis of ABS (2022b).

This reform would also encourage a few more senior Australians to downsize to more appropriate housing, although the effect would be limited given that research shows downsizing is primarily motivated by lifestyle preferences and relationship changes.⁹⁷

Housing would also be better allocated if more state and territory governments swapped stamp duty for a broad-based land tax. Stamp duties are among the most inefficient taxes available to the states and territories. They discourage people from moving to housing that better suits their needs, and sometimes they discourage people from moving to better jobs.⁹⁸

They are also unfair. Stamp duties especially penalise young people, who tend to be more mobile. Stamp duties also act as a de facto tax on divorce. When the family home is sold to allow assets to be split, the separating couple each need to pay stamp duty if they purchase again. It's a big reason why more than half of divorced women who lose their home don't buy again.⁹⁹

In contrast, property taxes – which are levied on the value of property holdings – are the most efficient taxes available to the states and territories. If they are designed well and applied broadly, they do little to change people's incentives to work, save, and invest. Property taxes are also a more sustainable revenue source than stamp duties.¹⁰⁰

However, the politics of this transition are fraught. Property taxes are often unpopular precisely because they are highly visible and difficult to avoid. Ultimately, it is hard to make the transition without significant revenue impacts.¹⁰¹ The federal government could play ease the

97. Daley et al (2018c, p. 38); Productivity Commission (2015); and Valenzuela (2017).

98. Coates and Moloney (2023a).

99. Ibid.

100. Ibid.

101. Coates and Moloney (2023b).

transition by giving temporary revenue guarantees to any state making the switch.

3.4 Further boost Commonwealth Rent Assistance

Rent Assistance materially reduces housing stress among low-income Australians, and reduces poverty more generally. In 2022-23, the payment reduced rates of rental stress among recipients from 72 per cent to between 44 per cent and 63 per cent, depending on how rental stress is measured.¹⁰² But historically the rate of Rent Assistance has not kept up with rents paid by recipients.¹⁰³ The recent 15 per cent increase in the payment is welcome, but more is needed. Rates of rental stress for many recipients are very high and will probably remain elevated.¹⁰⁴

Further boosting the rate of Commonwealth Rent Assistance would help low-income earners with their housing costs, and reduce poverty more generally. The 15 per cent increase in the maximum rate of Rent Assistance should be turned into a 40 per cent increase. This would probably cost an extra \$1.2 billion a year above the \$700 million costed in the 2023 Budget.¹⁰⁵

Commonwealth Rent Assistance would then provide the same real level of assistance to low-income earners as it did 15 years ago, taking into account the rising cost of their rent. In future, Rent Assistance should be indexed to changes in rents typically paid by people receiving income support, or to wages, so that its value is maintained.¹⁰⁶

102. Productivity Commission (2022, Table 9.2).

103. *Ibid* (pp. 322–323).

104. *Ibid* (Figures 9.13 and 9.14).

105. Grattan analysis of Treasury (2023b, p. 200).

106. Treasury (2009, p. 595). While the rental component of the CPI is a readily available and transparent measure, an index of rents paid by Rent Assistance recipients would provide a more accurate assessment of their rental costs.

A common concern is that boosting Rent Assistance would lead to higher rents, eroding much of the gains in living standards for low-income earners.¹⁰⁷ But an increase in Rent Assistance is unlikely to substantially increase rents.¹⁰⁸ Households are unlikely to spend all of the extra income on housing.¹⁰⁹ Households receiving Rent Assistance are only a small proportion of low-income renting households. And only 57 per cent of low-income private renter households received the payment in 2019-20.¹¹⁰

But further boosting Rent Assistance would not solve all the issues around housing affordability. Private rental is likely to be an inappropriate form of housing for vulnerable people at severe risk of long-term homelessness (Section 3.8 on page 23).

3.5 Continue to work with states to improve rental tenure security and quality

As outlined in Section 1.2 on page 4, the typical renter in Australia is changing. More people are renting for longer, more people are raising families in rentals, and more people are retiring as renters. This puts a premium on rental tenure security and quality.

Grattan Institute has previously recommended that state governments amend tenancy laws to make renting more secure, such as by abolishing ‘no grounds’ evictions and extending minimum notice periods that apply when landlords terminate a lease, as well as enabling tenants to make their rental property feel more like their home.¹¹¹

107. Senate Economics References Committee (2015, Chapter 22).

108. Daley et al (2018c, pp. 77–79), Ong et al (2020).

109. Each dollar of additional Rent Assistance should lead to an increase in spending on housing of only between 9 cents and 15 cents (Daley et al (2018c, p. 78)).

110. Productivity Commission (2022, p. 318).

111. Daley et al (2018d, Chapter 5).

Rental tenancy regulations sit with the states, but the federal government can, and has, played a role in encouraging reform.

In the recent National Cabinet decision, all states and territories committed to ending ‘no-grounds’ evictions and banning landlords from soliciting rent bidding. They also agreed to implement a national standard of no more than one rent increase per year.¹¹²

This is a promising step. But more will be needed to provide renters the tenure security they need (and deserve). National cabinet should next focus on narrowing the ‘grounds’ on which a landlord can end a tenancy.¹¹³

Another meaningful change would be for the federal government to encourage the states to reform state land taxes that favour ‘mum and dad’ investors over larger-scale institutional investors. State government land taxes disadvantage institutional investors, compared to ‘mum and dad’ landlords who own only one or two properties.¹¹⁴

Institutional landlords should be able to use economies of scale to reduce costs and improve the quality of service provided to tenants. Institutional investors are also probably more willing to offer long-term leases, since they are less likely to face cash-flow problems, and they can pool tenant risk. Consequently, institutional investors would be less

likely to be put off by stronger tenancy laws that provide renters with more secure tenure.

The simplest way to reform state land taxes would be to shift to a progressive land tax assessed on the value of each property owned, rather than on the combined value of an owner’s total landholdings, as already occurs in the ACT.¹¹⁵

Alternatively, state governments could offer a separate land tax regime for institutional investors (such as those owning at least 100 properties), in exchange for signing up to a stronger set of tenancy rules which further limit landlords’ grounds for eviction (i.e. a ‘Housing Compact’).¹¹⁶

Crucially, a reformed land tax regime should apply not just to institutions engaged in new ‘build-to-rent’ developments, but also to institutions that rent out large numbers of existing strata-titled developments. This would improve tenure security for the much larger stock of renters living in existing strata-titled units today.

3.6 Strict caps and outright rent freezes would do more harm than good

National Cabinet steered clear of rent caps and freezes in its new housing plan agreed by National Cabinet.¹¹⁷ This was the right call.

112. Prime Minister of Australia (2023a).

113. Beyond no-grounds evictions, landlords still retain extensive rights to evict tenants for a range of reasons, such as to move into or sell the property, typically with 60 days notice.

114. State land taxes are levied on a progressive scale, so that people with larger land holdings pay a higher rate per dollar value of land owned. In paying progressive land taxes across their entire holdings, institutional investors can lose roughly one quarter of their rental returns to land tax. These progressive land taxes levied on total landholdings and generous tax-free thresholds discourage larger landholdings and largely explain the absence of institutional investors from Australia’s rental housing market. See Daley et al (2018d, pp. 88–89).

115. A new revenue-neutral progressive land tax regime could be designed to most closely match the tax liabilities paid by existing landowners in each state, thereby minimising the windfall gains and losses from any reform. See Daley et al (ibid).

116. A new land tax regime for institutional investors could be levied based on the value of each individual landholding, rather than based on an institution’s total landholdings. The new regime should aim to collect the same amount of land tax on average per property as would be collected were the properties owned by ‘mum and dad’ landlords, such as by adopting lower tax-free thresholds than those that currently apply under existing state land tax regimes.

117. Prime Minister of Australia (2023a).

The Greens have proposed that the federal government offer incentive payments to the states to enact a two-year rent freeze, followed by a permanent cap on the growth in rents of 2 per cent every two years.¹¹⁸

But both rent caps and rent freezes do more harm than good. In the short term, freezing rents would benefit renters already in a home that suits their needs. But it would increase the scarcity of Australian housing at a time when rental vacancy rates are already at historic lows, because it would reduce the incentives for renters to respond to higher rents by sharing a home or moving in with their parents.¹¹⁹

People who need to get a new rental – for example, many younger Australians, new international students, or people fleeing domestic violence – would find there's little available as vacancy rates stay artificially low. As a result, a rent freeze would probably result in higher rates of homelessness as many (often more vulnerable) households struggle to find a home or room to rent.

In the long term, strict forms of rent control also risk reducing both the quantity and quality of housing available. A San Francisco study found that while rent control prevents displacement of incumbent renters in the short run, the lost rental housing supply probably drives up market rents in the long run.¹²⁰ New York studies found that rent-controlled units were more likely to be dilapidated.¹²¹ A German study found that the rents charged on non-controlled units can inflate when other units are subject to rent controls.¹²²

118. The Parliament of the Commonwealth of Australia (2023a).

119. Traffic to Flatmates.com.au increased 31 per cent year-on-year to June for people seeking a room.

120. Diamond et al (2023). The authors concluded that 'rent control appears to help affordability in the short run for current tenants, but in the long-run decreases affordability, fuels gentrification, and creates negative externalities on the surrounding neighbourhood'.

121. See Gyourko and Linneman (1989); Gyourko and Linneman (1990).

122. Mense et al (2023).

But beyond any impact on housing supply and quality, rent controls can cause a large 'mis-allocation' of housing across demographic groups, such as many (often older) renters living with more spare bedrooms while (often younger) families struggle to find the housing they need. Once a tenant has secured a rent-controlled apartment, they may choose not to move in the future, even if their housing needs change, which can lead to an inefficient allocation of housing resources.¹²³ In other words, rent-controlled cities need a larger housing stock to meet the housing needs of all its citizens.

3.7 There is a case for improving tenants' protections against large, sudden rent increases

However, there is a case for improving tenants' protections against large, sudden rent increases, provided the policy does not distort the allocation of the rental housing stock in the long term.

All states and territories already limit the frequency of rent increases for ongoing tenancies to between 6-to-12 months.¹²⁴

The ACT has a policy where rent increases above a benchmark are subject to additional scrutiny. If a landlord wants to increase rents by more than 110 per cent of the rents component of the Canberra Consumer Price Index, they are required to explicitly specify this to the tenant. They also must notify the tenant that if they do not agree to the increase, it will not take effect unless the landlord gets the approval of the ACT Civil and Administrative Tribunal.¹²⁵

Most other jurisdictions allow tenants to contest rent increases via an independent tribunal.¹²⁶ The distinguishing feature of the ACT policy is

123. See Glaeser and Luttmer (2003).

124. Martin et al (2022, Table 13).

125. ACAT (2023); and Legal Aid ACT (2022).

126. Renters in Western Australia have to go to the magistrates court (Magistrates court of Western Australia (2023)). Tenants in Victoria can appeal to Consumer

the use of a formal benchmark that clearly defines when escalation is warranted.

There is a case for the states to strengthen their policies, as already occurs in the ACT, to protect tenants against large and unexpected increases in rents, especially given the power imbalance in the rental relationship and the high cost of forced evictions for many tenants. Tenants are often hesitant to contest rent increases, preferring to avoid a confrontational relationship with their landlord or real estate agent. A formal benchmark for what counts as an excessive rent increase can help reduce this power imbalance, putting the onus on the landlord to justify large, unexpected rent increases. Although such a benchmark should be set much higher than that currently in the ACT – such as between 1.5 times and twice the growth in the benchmark rental price index – in order to avoid distorting rental prices in long term.

Further, the ACT is a relatively homogeneous rental market covering a small geographical area. The rental component of CPI is likely a much more suitable benchmark for a market such as the ACT than for the states. For example, it could be distorting to use the Brisbane CPI to benchmark rent increases in Townsville which is 1,350km away. The federal government, working with the states and territories through national cabinet, should explore whether more granular rental benchmarks can be developed via the Australian Bureau of Statistics.

3.8 The Senate should pass the HAFF Bill immediately

The HAFF Bill should be passed by the Senate as soon as possible, to provide an immediate boost to Australia's social housing stock. The Fund, based on a Grattan Institute proposal,¹²⁷ is expected to support

Affairs Victoria, which will make an independent rent assessment (Consumer Affairs Victoria (2023)).

127. Coates (2021).

the construction of 20,000 social and 10,000 affordable homes over the next five years.¹²⁸

The HAFF offers a guaranteed funding stream to cover the subsidy gap for social housing

The main purpose of the HAFF is to facilitate the provision of subsidised housing to a targeted cohort of vulnerable renters at significant risk of homelessness. The HAFF may also marginally boost Australia's overall housing stock, although at least some social homes may displace the construction of market rent housing.¹²⁹

The HAFF will disburse subsidies to state governments and community housing providers to support the construction of social and affordable housing. Once this subsidy gap is filled, developers of social housing – either community housing providers or state governments – will be able to finance the upfront construction of social housing dwellings, confident that the HAFF returns will top up the discounted rent paid by residents and make the project viable.

Under the HAFF, \$10 billion would be invested via the Future Fund Board of Guardians, with the returns used to offer support payments to state governments, or community housing providers, to build and maintain social housing.

Future funds have been used by recent governments from both sides of politics to meet long-term challenges, and there are few more pressing challenges than the lack of safe and affordable housing for some of our most vulnerable citizens. The Federal Government already manages more than \$250 billion in assets across six future funds to address

128. Ministers for the Department of Social Services (2023).

129. An additional 30,000 social and affordable homes, if all were genuinely additional, would boost Australia's housing stock by up to 0.3 per cent. But at least some projects are likely to utilise workers and materials that would otherwise support the construction of market-rent housing.

long-term problems ranging from covering federal public servants' superannuation entitlements to funding medical research.

These funds make use of the equity risk premium to generate a higher return to meet federal government obligations or commitments than if the capital of those funds was otherwise used to retire debt.¹³⁰ Over the past decade, the original Future Fund has delivered an average annual return of 9.1 per cent, against a target of 6.7 per cent and well above the cost of government borrowing over that period.¹³¹

Concerns that the HAFF will not deliver subsidies for social housing in a given year are misguided. Both the Medical Research Future Fund and Future Drought Fund, for example, have disbursed monies in a given year, even when fund investments have not made a return.¹³² Recent amendments to the HAFF Bill also mean the federal government will spend at least \$500 million a year on social and affordable housing, irrespective of the fund returns in a given year.¹³³

The differences between the HAFF and a direct government investment in social housing are overstated

A number of stakeholders have called for the federal government to directly invest in social housing in concert with the states. For example, the Greens have called for a \$5 billion investment each year directly in social and affordable housing.¹³⁴ Yet beyond the quantum of investment

proposed, there are few practical differences between the HAFF Bill and a direct government investment in social housing.

The HAFF would borrow funds to invest in via the Future Fund – in stocks, bonds, property, and other assets – and use the returns from that investment to cover the cost of subsidies to cover the cost of discounted rents to vulnerable tenants. The federal government would offer funding to community housing providers and state governments, who would build and maintain social housing.

Whereas a direct investment in social housing would see the federal government borrow to build and own social housing in concert with the states. Federal and state governments would wear the cost of offering discounted rent to social housing tenants in the form of a lower rent on the properties built. Future capital gains on those housing assets could offset the cost of those rental discounts to government.

Both approaches would see the government borrow to invest in an asset, either in the form of investments held by the Future Fund, or directly in housing. And both proposals entail the government guaranteeing a stream of funding to cover the subsidy gap for social housing, funding the discounted rents offered to tenants out of the returns on invested assets.

The biggest difference between the two approaches is that direct investment requires more government borrowing, per social housing dwelling built, than would be required for homes supported by the HAFF.

That's because direct investment involves the government directly financing the whole dwelling, with a likely cost of at least \$500,000 per dwelling. Whereas the HAFF involves borrowing sufficient capital, and

130. See Mehra and Prescott (1985). While the capital for the HAFF will be raised from additional government borrowing, whereas other future funds have been funded by budget savings or the proceeds of privatisations, in all cases the creation of future funds has involved a higher level of public debt than would otherwise be the case.

131. Future Fund (2023).

132. The Medical Research Future Fund disbursed \$393 million in 2019-20 and \$455 million in 2021-22, despite the fund returning only 0.2 per cent and 0.1 per cent respectively in those financial years. See: Department of Finance (2023)

133. The Parliament of the Commonwealth of Australia (2023b).

134. See Faruqi (2023).

investing it with the Fund Fund, to deliver a return sufficient to cover the subsidy gap for the discounted rent for the property.¹³⁵

As a result, direct investment involves the federal government taking on more financial risk per social housing dwelling made available. And a diversified portfolio of assets invested by the Future Fund should generate a higher risk-adjusted return than a narrow investment solely in Australian social housing.

But in any case, the small differences between these approaches means the case for further delaying passage of the HAFF Bill, in pursuit of an alternative model of direct investment in social housing, is weak.

Delaying passage of the HAFF Bill now will worsen Australia's rental crisis

Once the HAFF Bill passes, the federal government can commence tendering for social housing projects with community housing providers and state governments. Once contracts have been struck, construction can commence, with the expectation that funds will flow from the federal government once projects are completed and dwellings are tenanted.¹³⁶ There would be no need to wait for the Fund to deliver returns at the end of its first year, before construction of social and affordable housing could commence.¹³⁷

Demand for social housing is rising as rising rents force more low-income Australians into poverty and housing stress. Further delay in passing the Bill now will simply worsen Australia's housing crisis.

135. The 30,000 social and affordable homes that would be delivered by the HAFF equates to \$333,000 in public borrowing per home delivered.

136. The same logic applies for private housing construction, where rents are only paid after the dwelling has been constructed and is available for let.

137. This claim has been made by the Greens. See Guardian (2023).

The HAFF doesn't go far enough, but could form the basis for future investments in social housing

Our biggest concern with the HAFF is that it does not go far enough.

Given population growth, Australia needs about 6,500 new social housing dwellings per year to retain the current share of social housing in the total housing stock. Continued growth in social housing is necessary to ensure that those who need social housing can get it, given that most existing tenants tend to stay for an extended period.

The HAFF will fund the construction of 20,000 social homes and 10,000 affordable homes over five years, or an average of 4,000 social and 2,000 affordable homes a year over that period. But it will probably do so by committing the returns from the fund over about 15 years.¹³⁸ Therefore the initial \$10 billion capital contribution to the fund is unlikely to support any further social housing for at least another 15 years.

The additional \$2 billion since committed by the federal government for social housing, if allocated via capital grants, could support an additional 6,667 social housing dwellings, or more if matched by additional contributions by state and territory governments.¹³⁹

While insufficient to solve Australia's social housing shortage, the HAFF could support a substantial boost to Australia's social housing stock in the long term.

For example, increasing the size of the HAFF to \$20 billion in future, as initially recommended by Grattan Institute, could support subsidies for social housing of \$1 billion a year, up from \$500 million a year currently. An expanded HAFF could deliver an extra 3,000 social housing units each year in perpetuity via the provision of capital grants. Were the

138. Assuming an availability payment model where the federal government covers the subsidy gap for 15 years.

139. Assuming an upfront capital grant of \$300,000 per dwelling. See Coates (2021); Prime Minister of Australia (2023b).

states to match this additional federal funding, the injection of extra units would probably be enough to stabilise the social housing share of the total housing stock.¹⁴⁰

Any additional housing subsidies should prioritise social, not affordable, housing

Given its costs, social housing should be reserved for those most in need, and at significant risk of becoming homeless for the long term.¹⁴¹ An unprecedented boost to the social housing stock – such as an extra 200,000 dwellings – would make a big difference to people who are homeless if it were tightly targeted towards them.¹⁴² But even then, more than two-thirds of low-income Australians would still be in the private rental market.

Additional federal government subsidies should not be provided for affordable housing, because affordable housing, such as that constructed under the now defunct National Rental Affordability Scheme (NRAS), is typically not targeted at people most in need. Eligibility thresholds for the NRAS were set far too high: \$50,000 for a single adult, or nearly \$70,000 for a couple – much higher than the equivalent eligibility thresholds for Commonwealth Rent Assistance. As a result, a substantial proportion of people allocated to affordable housing schemes are on moderate-to-higher incomes.¹⁴³

Far more people are eligible for affordable housing than there are places available. Consequently, affordable housing schemes are in effect lotteries that provided much more assistance to some people than others. By contrast, Rent Assistance is available to all Australians who are eligible and confers greater choice on tenants.

140. Coates (2021).

141. New allocations of social housing are better targeted to those most in need.

142. There were 122,000 homeless Australians on Census night in 2021: ABS (2022c).

143. Coates and Horder-Geraghty (2019).

Therefore, beyond passing the HAFF Bill and ensuring a flow of additional social housing for people most at risk of long-term homelessness, further support for low-income housing should be focused on direct financial assistance for low-income renters, and improving housing affordability more broadly by increasing the number of homes constructed.

3.9 Making housing more affordable requires making tough policy choices

Australian governments have historically avoided the hard choices on housing affordability, preferring policies that merely appear to help. The politics of reform are fraught because most voters own a home (and many own investment properties), and mistrust any change that might dent the price of their assets. But if governments keep pretending there are easy answers, housing affordability will only get worse.

Prime Minister Anthony Albanese says the recent National Cabinet decision is the most significant housing reform in a generation. If the states and territories deliver on their commitments, this might become one of the rare occasions when such lofty rhetoric is justified.

Now, governments need to bring the public with them as they undertake the reforms necessary to build 1.2 million well-located homes over the next five years.

Either people accept greater density in *their* suburb, or their children will not be able to buy a home, and seniors will not be able to downsize in the suburb where they live. Economic growth will be constrained. And Australia will become a less equal society, both economically and socially.

Greater support to help house vulnerable Australians is needed. But any extra social housing needs to be targeted at those most at risk of homelessness. While a substantial increase in Commonwealth Rent

Assistance is needed to help low-income earners cope with rising rents.

Policy can make a difference – but only if we make the right choices.

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