

From the desk of Saxon Davidson, Research Fellow

29 August 2023

Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Committee Secretary,

Institute of Public Affairs submission to the Inquiry into the Housing Australia Future Fund Bill 2023 [No. 2] [Provisions], National Housing Supply and Affordability Council Bill 2023 [No. 2] [Provisions] and the Treasury Law Amendment (Housing Measures No. 1) Bill 2023 [No. 2] [Provisions].

Australia's housing shortage is the result of both supply and demand issues. On the supply side, government red tape and tax, the rising cost of raw materials, and a shortage of workers in the economy, are placing upward pressure on production and development costs. On the demand side, the unprecedented and unplanned surge in migration is placing immense strain on the housing market and putting further upward pressure on prices.

The findings contained in this submission are based on wide-ranging analysis, undertaken and published by the Institute of Public Affairs (IPA), on issues relevant to the inquiry, including: the relationship between rising migration and demand for housing; the views of Australians on migration and the associated demand for infrastructure; and worker shortages in the construction industry.

The federal government's proposed increase to immigration will result in a shortfall of more than 250,000 homes.

Australia is a tolerant and welcoming nation, and planned migration plays a critical role in the economic success of the nation. However, the federal government's unplanned surge in migration will drive up the demand for housing and cause housing shortages.

Between 2023 and 2028 net migration to Australia is expected to be more than 1.7 million people. This is equivalent to 117,000 new households being formed every year from immigration alone, all of which will be searching for housing. Over that period, housing supply is expected to increase by only 866,900 units, which will result in a cumulative supply shortfall of 252,800 housing units.

The intake of international students during the 2023 financial year of over 250,000 students was more than twice the previous high of 122,000 in the 2009 financial year. IPA research has found that in 2023 international students occupied the equivalent of 70 per cent of net new housing units supplied to the market. A further 187,000 net new international students are expected to arrive this financial year. This is equivalent to 55 per cent of net new housing supply.

IPA research has found that Australians are concerned about the level of unplanned migration. In polling commissioned by the IPA, 60 per cent of respondents believed immigration should be paused until more economic and social infrastructure, such as schools, roads, hospitals, and houses, are built.

Housing reform must account for demand factors. The federal government should immediately review the recently announced unplanned migration intake and adjust it to levels commensurate with housing supply to ensure Australians can purchase their own homes.

Australia's worker shortage crisis is impeding housing supply.

Australia is currently experiencing an unprecedented shortage of workers. According to the Australian Bureau of Statistics (ABS), there are more than 431,000 job vacancies, a 235 per cent increase from May 2020, and almost one in four businesses are experiencing labour shortages.

Construction is one of the industries hardest hit by the current worker shortage. According to the ABS, the number of job vacancies in the construction industry has quadrupled since May 2020. This has occurred alongside a decrease in the completion of new private dwelling units. According to the ABS, the average quarterly number of new private dwellings entering the market during the worker shortage crisis (the last eight quarters) is almost 20 per cent less than the eight quarters prior to the pandemic.

IPA analysis has found that the most effective means of reducing the number of job vacancies is to lower the effective marginal tax rates of Australians who receive entitlements, including students on the Youth Allowance, in order to incentivise them to enter the workforce.

Currently, a student on the Youth Allowance can earn only \$240 per week before their benefits start to be reduced by 50 cents for every extra dollar earned. If the student chooses to work even more, and earn more than \$288 per week, they face losing 60 cents on the dollar in their benefits. This, combined with income tax, means a student is potentially subject to an effective marginal tax rate of 79 per cent. This is why less than half of this cohort work.

Similarly high tax rates are imposed on Australian pensioners and veterans, who can earn only \$226 per week before they lose 50 cents on the dollar in pension payments. This will revert to \$150 per week on 31 December 2023 due to the expiry of the *Social Services and Other Legislation Amendment (Workforce incentive) Act 2022*.

The federal government should commit to permanently extending and expanding the temporary changes contained in the *Social Services and Other Legislation Amendment (Workforce incentive) Act 2022* by removing all tax and red tape barriers currently preventing more Australian pensioners, veterans, and students from entering the workforce.

I wish to thank the committee for the opportunity to provide this submission. Please do not hesitate to contact me at [REDACTED] for further consultation or discussion.

Kind regards,

Saxon Davidson
Research Fellow

Enclosed:

Worker Shortage and Immigration Poll (April 2023).

Western Australia is Worst Affected by Crippling Worker Shortage (June 2023).

Mass Migration Induced Housing Shortage (June 2023).

Australia's Housing Shortage – International Student Intake Exacerbating Nationwide Housing Supply Shortfall (July 2023).